



# BUDGET SUBMISSION

March 2021



**BREWERS**  
ASSOCIATION

# EXECUTIVE SUMMARY

Australia's beer producers are a vital part of our economy and play a critical role in our communities and regions across the country.

The vast majority (85 per cent) of beer consumed in Australia is made in Australia – in breweries and production facilities from Little Creatures in Western Australia to XXXX and Great Northern in Queensland and Coopers in South Australia. Our sector is a major driver of jobs and economic activity. 13,500 Australians are employed directly by our members with the broader sector underpinning 100,000 FTE jobs throughout our supply chain.

Our beer supply chain is largely domestic, supporting Australian farmers and other businesses including buying all-Australian barley. Each year we invest more than \$254 million directly in the agricultural sector.

Overall, we contribute around \$16 billion every year in economic activity and generate \$2.97 billion<sup>1</sup> of direct revenue to the Federal Government through beer excise and GST.

Beer sales are an integral part of the success of the 12,000 hospitality venues across Australia. In recent years beer sales have consistently averaged around 70 per cent of volumes in licensed premises.<sup>2</sup>

The strength of Australia's great beer brands and the innovation showed by the industry has underpinned the longevity of the sector in Australia. But the industry continues to face significant challenges, exacerbated now by COVID19.

Beer consumption has fallen steadily over recent years due to changes in drinking patterns and successive increases in excise that have now made the tax on beer in Australia the fourth highest in the developed world. According to the most recent ABS Apparent Consumption of Alcohol statistics per capita beer consumption dropped

by just over 20 per cent between 2007-08 and 2017-18 and 60 per cent less in 2017-18 than in 1974-75.<sup>3</sup> These trends are putting pressure on the hospitality and brewing sector and late last year we saw the West End Brewery announce that falling sales meant it would need to close its operations in Adelaide from June 2021 with the loss of 90 jobs.

Definitive alcohol sales figures for 2020 are now available and these show the full extent of the damage done to brewers and to the hospitality venues which sell their products. Lockdowns in Victoria and elsewhere in Australia have had a profound impact on beer sales with April and May 2020 showing astonishing declines in sales at hospitality venues of 94 per cent and 96 per cent respectively.<sup>4</sup> Overall sales of draught beer through pubs, clubs and other hospitality venues for the year ending December were down by an incredible 30 per cent.<sup>5</sup> Beer sales through retail venues such as liquor stores did increase over the same period (year to December 2020 compared to the previous year) but this was not enough to offset the fall in on trade sales. Overall the volume of beer sales across the hospitality and retail sectors were down for this period by 2.6 per cent.<sup>6</sup> This represents a massive drop of around \$1 billion in revenue from beer sales for hospitality venues with a significant knock on effect for the brewing industry.

The cost to the brewing industry of lockdowns has been immense. As a perishable product, beer that had been produced and was ready in kegs to be shipped to venues had to be destroyed when these venues were closed. Overall, 373,500 kegs had to be tipped with the costs borne by the sector. That's around 44 million schooners in lost sales to the brewing industry and our hospitality sector.

1 \$2,455 million excise revenue plus \$244.5 million in GST giving a total of \$2,699.5 million increasing to \$2,969.45 million with retail GST.

2 Euromonitor data

3 Australian Bureau of Statistics, Apparent Consumption of Alcohol, 207-18

4 Industry estimates based on ATO ex-factory data

5 *ibid.*

6 *ibid.*



### What we are looking for from Budget 2021?

The economic measures that the Federal Government has introduced to support business, such as JobKeeper and its subsequent extensions, have kept thousands of Australians connected to their jobs with our customers (the operators) in the hospitality sector.

We appreciate everything the Federal Government has done in this respect. We do believe that there are further, targeted measures that the Government should consider, given the extraordinary circumstances, to support the Australian hospitality sector.

We have seen other countries such as the US and, most recently, the UK take action on alcohol tax to stimulate the hospitality sector and support the brewing industry. We urge the Government to consider adopting similar measures.

- > There is a strong case for the Government to consider more targeted support for the hospitality sector such as reducing the excise on draught beer only.  
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- > As a minimum we believe the Government should freeze alcohol excise in this Budget to support the hospitality sector, consumers and all brewers.  
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- > We strongly support the call from the AHA to suspend FBT on meals and entertainment in licensed venues.  
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- > Regulatory changes drive significant additional costs to the industry. We ask the Government to take into account the cumulative cost of proposed changes across Government before proceeding with further initiatives.

# WHO ARE WE?



**BREWERS**  
ASSOCIATION

The Brewers Association is the peak body representing Australia's leading beer makers and, more broadly, beer drinkers across Australia.

It is a leading voice for sensible, responsible and workable policy solutions for our sector and the community.

The membership comprises the nation's premier beer producers, makers of premium beers and the most iconic brands. Its members, Carlton & United Breweries (CUB), Lion and Coopers constitute more than 79 per cent of all beer sales in Australia.

As a key manufacturer together, BAA members employ more than 13,500 Australians in brewing, sales, professional services and logistics in communities right across Australia. Brewers Association members are committed to contributing to the country's economic recovery and securing great long-term jobs right across the supply chain from farming to hospitality.



# THE AUSTRALIAN BEER INDUSTRY – OUR CONTRIBUTION

The beer industry contributes billions to government revenue and supports a significant supply chain including supporting nearly 100,000 FTE jobs, underpinning \$16 billion a year in economic activity.

## Australian Government Revenue

Beer taxes netted the Australian Government \$3.593 billion in 2018/19. That's \$2.01 billion in excise, \$201 million in GST on the excise, then a further \$1.3 billion in GST at the retail end.

## Supporting Australian Farmers

Our beer supply chain is largely domestic, supporting Australian farmers and other businesses including buying all-Australian barley. Each year we invest more than \$254 million directly in the agricultural sector.

More than one million tonnes of malting barley is produced by Australian farmers each year for brewing in Australia and overseas. Barley is one of Australia's top crops. In Australia, barley is second in crop size only to wheat, covering almost 4 million hectares sweeping from central and southern Queensland, throughout north to south mid-western NSW, northern and western Victoria, north to south central Tasmania, south-east and south-central SA and south-western WA.

We are the largest buyers of hops in Australia, supporting an export industry that has seen world-leading research and development. This year's hop harvest is now underway in hop farms in Victoria and Tasmania, with this industry underpinned by the domestic brewing sector. In addition, spent grain is provided to dairy farmers for feed at below market rates and brewer's yeast is an integral ingredient for Bega in the production of Vegemite.

## Packaging

We spend almost \$582 million a year on packaging. We are one of the largest buyers of glass in Australia. We are also key purchasers of cardboard and cans, with both industries employing thousands of manufacturing workers nation-wide.

## Transport and logistics

We spend more than \$281m a year in Australia for our critical logistics suppliers who are major employers of packers and truckdrivers.

EVERY YEAR  
**9 million Australians**  
ENJOY A BEER,

be it after **footy training** on a Tuesday in Katoomba, after a **hard day working** on a road project in Gladstone, **catching up with friends** on Saturday night in Melbourne or a **family dinner** in Midvale.

**BEER** brings  
PEOPLE TOGETHER

in homes, pubs, clubs and other venues right across **AUSTRALIA**.

# ALCOHOL AND BEER CONSUMPTION IN AUSTRALIA

Nine million people in Australia regularly enjoy a beer and responsible consumption of beer is a key part of our society and culture. When we look at long term drinking trends some clear patterns emerge which should inform policy and Budgetary decision making.

## Australians are drinking more responsibly than ever before

A range of data sources for Australian alcohol consumption show clear, positive change and a tangible reduction in harmful use of alcohol. This trend is clear and continuing. According to the Australian Bureau of Statistics, Australians today are drinking less alcohol overall in more than 55 years. Across all alcoholic beverages, there were 9.51 litres of pure alcohol available for consumption in 2017-18 for every person in Australia aged 15 years and over, which represents a drop of more than 25 per cent since its peak.

Other general trend data points include:

- > Around 40 per cent of Australians consume alcohol weekly. Just 6 per cent drink daily – down from 9 per cent in 2007.
- > 84 per cent of Australians drink within recommended Government guidelines. Fewer people in Australia drink alcohol in quantities that exceed the lifetime risk – down to 16.1 per cent in 2017- 18 compared to 21 per cent in 2004.

## Beer consumption is in long term decline overall and relative to spirits and wine

Within the broad trend of declining consumption, consumer choices between categories has shifted profoundly. Within the overall consumption of alcohol the proportion of beer consumed has

declined significantly whilst wine and spirits consumption has increased. According to the most recent ABS Apparent Consumption of Alcohol statistics per capita beer consumption dropped by just over 20 per cent between 2007-08 and 2017-18 and 60 per cent less in 2017-18 than in 1974-75.<sup>7</sup> Put simply more people are choosing to drink wine and spirits products at home and fewer are able to afford going out to the pub and drinking beer.

## And COVID19 has exacerbated this trend with enormous declines in beer sales in 2020

This long-term trend was magnified during COVID19 with a further significant shift of consumption away from beer due to lockdowns and other impacts on the hospitality sector.

Definitive alcohol sales figures for 2020 are now available and these show the full extent of the damage done to brewers and to the hospitality venues which sell their products. Lockdowns in Victoria and elsewhere in Australia have had a profound impact on beer sales with April and May 2020<sup>8</sup> showing astonishing declines in sales at hospitality venues of 94 per cent and 96 per cent respectively. Overall sales of draught beer through pubs, clubs and other hospitality venues for the year ending December were down by an incredible 30 per cent.<sup>9</sup> Beer sales through retail venues such as liquor stores did increase over the same period (year to December 2020

7 Australian Bureau of Statistics, Apparent Consumption of Alcohol, 207-18

8 Industry estimates based on ATO ex-factory data

9 ibid.

compared to the previous year) but this was not enough to offset the fall in on trade sales. Overall the volume of beer sales across the hospitality and retail sectors were down for this period by 2.6 per cent.<sup>10</sup> This represents a massive drop of around \$1 billion in revenue from beer sales for hospitality venues with a significant knock on effect for the brewing industry.

The cost to the brewing industry of lockdowns has been huge. As a perishable product beer that had been produced and was ready in kegs to be shipped to venues had to be destroyed when these venues were closed. Overall, 373,500 kegs had to be tipped with the costs borne by the sector. That's around 44 million schooners in lost sales to the brewing industry and our hospitality sector.

### **Beer drinkers are increasingly shifting to mid strength and low alcohol beer products**

Australia has seen steady growth of 3.5 per cent Alcohol by Volume (ABV) beers since the early 1990s. The Australian market leads the world in both innovation and consumer adoption of lower strength beers. Since 2010, there has been further acceleration in growth in the 3.5 per cent ABV beer category.

Due to this innovation and investment in the segment, the two highest selling beers in Australia currently are 3.5 per cent ABV beers. Mid-strength (3.5 per cent ABV) and low-strength beers now account for more than one-quarter of all local beer sales at 26.5 per cent of total sales volume. Mid-strength makes up 22.5 per cent of all beer sales in Australia. All three of Australia's major brewers (CUB, Lion and Coopers) also produce non-alcohol beers.

This trend has helped drive increasing moderate consumption of alcohol in Australia and should be welcomed as a huge achievement by all of us who actively promote responsible consumption.

The World Health Organisation's Global Alcohol Strategy (2010) suggests to governments to adopt measures that will reduce the alcoholic strength inside different beverage categories.<sup>11</sup> The concept of encouraging or nudging consumers towards lower-alcohol products is a widely accepted and successful approach and there is an increasing evidence base that this is an effective and cost-effective way to tackle harmful consumption.

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<sup>10</sup> *ibid.*

<sup>11</sup> WHO Global Alcohol Strategy 2010, Area 8, D. Reduce the alcoholic strength inside different beverage categories.

The Australian Government has designed its beer excise regime to incentivise this innovation, giving preferential taxation levels to lower strength beers. This has clearly been effective and has delivered excellent public health outcomes.

### **Government revenue from beer tax**

Consumption patterns and the ongoing increases in the beer tax have had a significant impact on government revenues.

Beer tax increases automatically every six months and has been consistently going up twice a year since 1983 (more than 70 increases) until CPI retreated in 2020. These increases have now resumed with a CPI increase announced in February 2021 and another one set for later this year. These cumulative increases represent approximately an additional \$70 million each year in tax levied on beer.

Critically though, despite the excise increases, we are now seeing revenue from beer tax fail to meet Government projections and actually decline because of falling sales.

Between 2018-19 and 2019-20 Government revenue from beer tax fell from \$2.46 billion to \$2.455 billion. The Mid Year Financial Outlook released in December 2020 showed that Treasury expect revenues to increase very slightly in 2020-21 to \$2,510 million but then drop back significantly to \$2,400 million in 2021-22 and \$2,470 in 2022-23. For comparison, Treasury expects revenue from spirits excise and customs duty to increase steadily from \$2,648 million in 2019-20 to \$2,910 million in 2023-24.

### **Beer and the hospitality sector**

The figures provided by the Australian Hotels Association in their Budget submission in relation to the impact of COVID19 on the sector are stark.

The case study they include on South Australia and the impacts of its lockdown demonstrate what a profound impact it had on the sector through jobs lost and turnover reduced.

We agree with the AHA that given the economic harm the hospitality sector has suffered further relief and stimulus for our pubs and clubs is warranted to support Australian jobs.

# BEER AND 2021 FEDERAL BUDGET

## Considerations for Budget decisions?

- > Successive tax increases have hit beer particularly hard and have driven consumer behaviour that has also impacted our hospitality sector.
- > Of all the alcohol categories beer has been impacted most significantly by COVID19 and we are close to a tipping point where major damage could be done to the industry.
- > Changing patterns of beer consumption are helping to drive the shift to more moderate alcohol consumption. This is already incentivized through the excise tax system (varying rates for differing alcohol rates) and the Government should consider how to use this further to achieve beneficial public health outcomes.
- > Beer sales are critical for hospitality venues. Although many venues sell a diverse range of alcohol products, for the vast majority of pubs and clubs beer remains their largest selling alcohol product by some way. The profit margins associated with beer sales are critical to their businesses.
- > Government revenue from beer tax is projected to decline in the short term and remain static over the forward estimates whilst revenues from other categories are expected to keep on increasing. Further increases in tax will simply mean lower demand and less revenues for government.

## How can Government deliver targeted support to hospitality, consumers and the brewing industry?

Given the extraordinary circumstances we believe it is critical that Budget tax measures in relation to alcohol are directed to support the Australian hospitality sector.

We strongly support the call from the Australian Hotels Association to suspend FBT on meals and entertainment in licensed venues. Whilst this will not apply to our beer products it will help bring people back to pubs and clubs and support them as they rebuild.

We also believe the Government should move urgently in the Budget to freeze alcohol excise rates. This would be a targeted and moderate measure to ensure that the existing high tax burden on the hospitality sector, consumers and producers is not increased even further during these challenging times.

The UK Government used its March 2021 Budget to announce a freeze in alcohol tax and we believe the Australian Government should take a similar approach to support our pubs and clubs and deliver moderate relief to consumers.

In the medium term we believe the Government should also consider further measures to give targeted tax relief to support the hospitality sector. The UK Government is considering as part of its general review of alcohol taxation a proposal to reduce tax rates for sales in hospitality venues only as a specific measure to support their pubs and clubs.

We believe the Australian Government should consider this measure and in particular a reduction in the excise on draught beer sales given the importance of beer to the Australian hospitality sector. As we saw in the UK between 2013 and 2015 a progressive year on year reduction in beer tax can make a real difference to the operating costs of hospitality venues and incentivise consumers back into these venues. An excise reduction on draught beer could easily be applied in a way that favours the consumption of low and mid-strength beers. We would be happy to work with the Government on the detail of such a proposal noting that the tax system for beer already distinguishes between keg beer and packaged beer.

A reduction in beer excise would also mean more of the benefits go to Australian producers. Just over 85 per cent of beer consumed in Australia is also produced here. For other categories of alcohol product the level of imports is significantly higher than this meaning that excise reductions will benefit overseas producers.







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