



# BUDGET SUBMISSION

September 2020



**BREWERS**  
ASSOCIATION

# EXECUTIVE SUMMARY

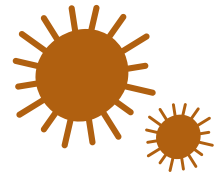
With 85 per cent of all beer sold in Australia being made in Australia, our vibrant beer sector is a major driver of economic activity and domestic jobs, supporting vital cogs in industry from Australian farmers upstream to brewing, packaging, distribution and freight, all the way through to retail, tourism and hospitality.

Despite more than 9 million Australians enjoying a beer, before the 2020 COVID-19 pandemic, the Australian beer industry was and continues to face real and significant challenges.

- 1 Beer consumption decline of almost 15 per cent in the past 10 years, including movement away from the beer category.
- 2 Beer excise hikes which saw 35 consecutive increases making it less affordable for working people. In fact, Australian beer tax is the 4<sup>th</sup> highest in the industrialised world.
- 3 Cumulated increased regulatory cost, for example, state based container deposit schemes. In addition, the recent pregnancy warning label decision mandating colours, will cost the alcohol industry alone in excess of \$400 million.

## COVID-19

COVID-19 has severely impacted the hospitality sector, particularly in Victoria. From a beer perspective, the closures saw more than 20 million schooners being poured down the drain.



- 1 Accelerated market decline in the June quarter with keg sales down significantly and despite lock downs and media coverage of stockpiling alcohol, pack beer sales were also down 3 per cent.
- 2 The total closure of the hospitality sector, (which continues in Victoria at time of publication), resulted in at least 440,000 Australians losing their jobs, affecting every community in the country.
- 3 Potential risk of permanent consumer behaviour changes with a recent study indicating that 43 per cent of people will entertain more at home. With beer being the lowest preferred at home beverage as highlighted by being the biggest category drop in April.<sup>1</sup>

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1 Impact of COVID-19 on the Drinks Industry ABA – Industry report on coronavirus



Image: ABC News (Australian Broadcasting Corporation)

## RECOMMENDATIONS

To combat the above factors and the impact they will have in short, medium and long term on the brewing industry and its important supply chains, the BAA is calling on the Government in the context of the Budget to:

- > Support the Australian brewing industry and hospitality businesses by cutting beer excise, or at the very least, freezing it
- > Ensure that decisions, which materially impact our industry, are considered by the whole of government
- > Continue JobKeeper
- > Domestic tourism package

“You can see that for, particularly the hospitality sector, accommodation and food services, just under 2 per cent fall (in GDP), but in terms of jobs, 441,000 jobs.”

– Prime Minister the Hon Scott Morrison MP  
5 May 2020

# OVERVIEW

The Brewers Association of Australia (BAA) commends the Treasurer and The Treasury for the ongoing efforts in managing the unprecedented health and economic challenges presented by the COVID-19 pandemic.

The economic measures that have been introduced to support business, such as JobKeeper and its subsequent extensions, have kept thousands of Australians employed and attached to their jobs with our customers in the hospitality sector.

The recovery and rebuilding of the hospitality sector will be a key economic driver in every local community in Australia as bar staff, cleaners, cooks, kitchen hands and duty managers are re-employed in our country's more than 12,000 venues.

A vibrant hospitality sector also contributes significantly to the Australian culture, people's social connection and the Australian brewing industry.

The 2020-21 Federal Budget will be one of the most important in Australia's history, paving the way for our country's future. It will be critical in continuing to support our nation's economy.

We aren't alone, many industries have been badly affected by the current economic climate and are supportive of the Australian Government adopting the best economic policies to get the economy on a path to recovery as well as making the cost of living manageable for those who will be out of work entirely, on reduced hours or pay.

As a major, advanced manufacturing sector, the Brewers Association wishes to contribute to the national debate on our economy.

“Consumption is not expected to reach its pre-COVID-19 level until early 2022, consistent with the elevated unemployment rate and the gradual recovery in household income”

– RBA





“Employment will grow faster than both its long-term average pace and population growth over 2021 and 2022, but the employment-to-population ratio will remain much lower than it was prior to the pandemic.”

– RBA

## Brewers Association of Australia

By way of background, the BAA 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.

In the longer term BAA members are committed to contributing to the country’s economic recovery and maintaining their positions as leaders in the corporate sector. This is demonstrated by:

- > Understanding consumer drivers to support a vibrant tourism and hospitality sector.
- > Looking at overseas experiences and capitalising on lessons that can be adopted.
- > Developing new products in Australia.
- > Investing in capital projects across more than 18 manufacturing sites in the country.
- > Leading a range of cutting-edge energy, waste, recycling and sustainability initiatives.
- > Driving a responsible industry that invests in positive cultural change, working to reinforce the long term trend of improving drinking habits.

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.**



**BREWERS ASSOCIATION**

# THE AUSTRALIAN BEER INDUSTRY

The Australian beer industry is a key economic driver for the Australian economy through excise payments, employment, hospitality, tourism and beer's extensive supply chain.

In addition, beer is part of the unique Australian social fabric, signifying what it means to bring people together in social settings, something many had taken for granted until COVID.

## The contribution to Australian Government revenue

Beer taxes netted the Australian Government \$3.593 billion last year in 18/19. 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.<sup>2</sup>



## The supply chain contribution

Like all large manufacturing there is a significant supply chain ranging across our customers, to our direct suppliers including farmers to those in transport logistics and packing.

### Australian agriculture

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.

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 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

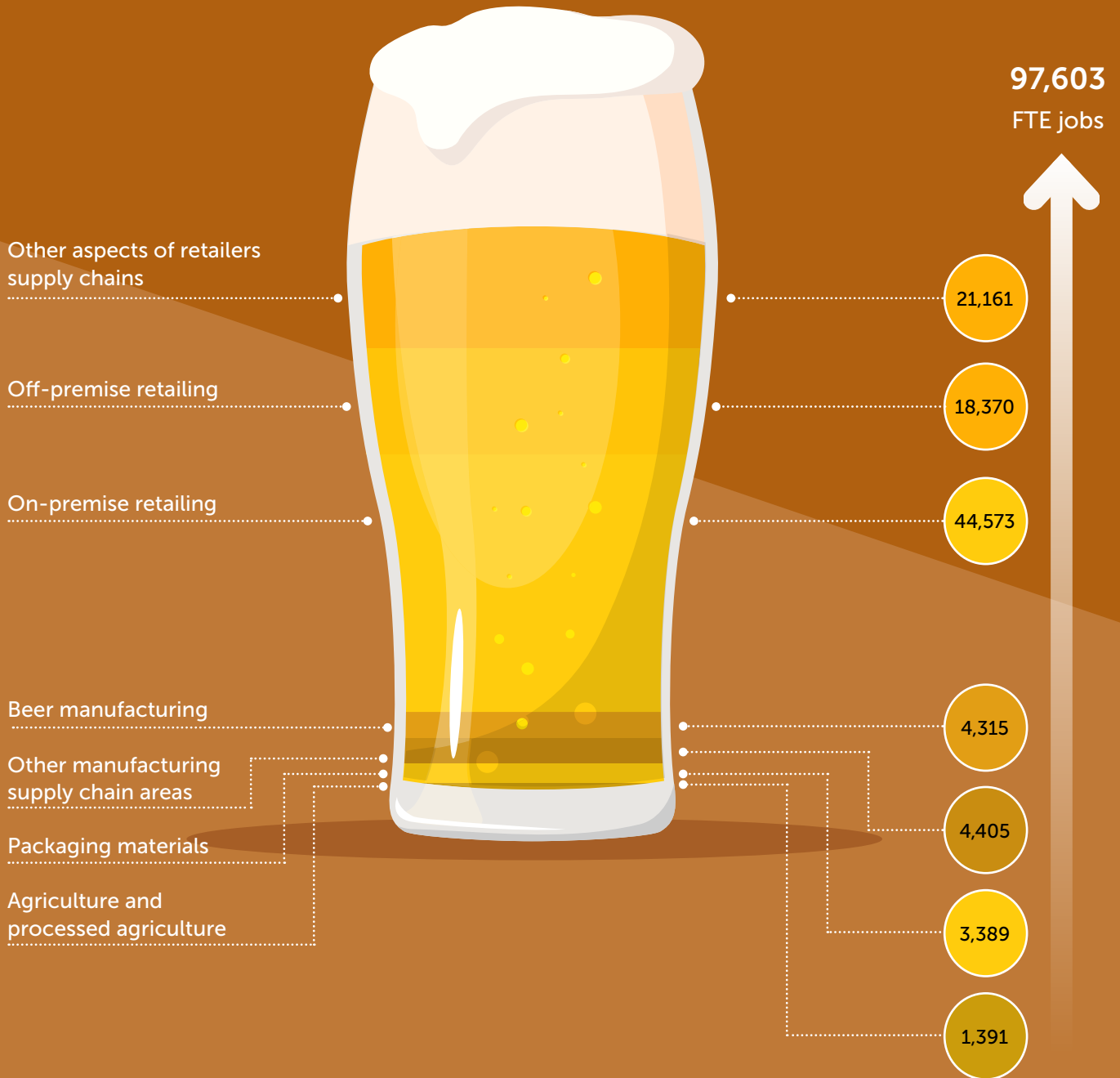
We spend almost \$582m a year on packaging. We are one of the largest buyers of glass in Australia. We are also key purchasers of cardboard and cans, with both industries employing thousands of manufacturing workers nation-wide.

### 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.

<sup>2</sup> ACIL Allen Consulting, *Economic Contribution of the Australian Brewing Industry 2018-19 from Producers to Consumers*, March 2020

# Australian employment associated with domestically brewed and retail beer





## Economic activity

In addition to connecting communities, the beer industry alone contributes billions to government revenue and supports a significant supply chain including supporting nearly 100,000 jobs, underpinning \$16 billion a year in economic activity. The COVID-19 Pandemic has impacted both government revenue and jobs along with the long term confidence within the sector.

### Economic contribution of the Australian Brewing Industry, 2019-19

	NSW/ACT	VIC	QLD	SA	WA	TAS	NT	AUSTRALIA
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Beer production	701	1,421	1,835	343	305	109	26	4,740
Beer producer's supply chain	248	394	565	115	52	33	4	1,412
<b>Beer production including supply chain</b>	<b>949</b>	<b>1,815</b>	<b>2,400</b>	<b>454</b>	<b>357</b>	<b>142</b>	<b>30</b>	<b>6,152</b>
On-licence retailing of domestically produced beer	2,142	1,806	1,497	407	702	167	97	6,819
Off-licence retailing of domestically produced beer	945	802	665	181	314	76	44	3,026
<b>TOTAL CONTRIBUTION</b>	<b>4,037</b>	<b>4,423</b>	<b>4,561</b>	<b>1,046</b>	<b>1,374</b>	<b>385</b>	<b>170</b>	<b>15,996</b>

Note: Estimates of the economic contribution of retailing only includes the retailing of Australian produced beer. Totals may not add due to rounding.

Source: ACIL Allen Consulting, *Economic Contribution of the Australian Brewing Industry 2018-19 from Producers to Consumers*, March 2020.



# REGULATORY CHALLENGES

There are a range of factors impacting on the current and future success of the Australian brewing industry.

These include:

## > Long term industry headwinds

- Beer consumption decline of almost 15 per cent in the past 10 years, including movement away from the beer category.
- Beer excise hikes which saw 35 consecutive increases making it less affordable for working people. In fact, Australian beer tax is the 4<sup>th</sup> highest in the industrialised world.
- Cumulated increased regulatory cost, for example, state based container deposit schemes. In addition, the recent pregnancy warning label decision mandating colours, will cost the alcohol industry alone in excess of \$400 million.

## > COVID-19 impacts

- Accelerated market decline in the June quarter with keg sales down significantly and despite lock downs and media coverage of stockpiling alcohol, pack beer sales were also down 3 per cent.
- The total closure of the hospitality sector, (which continues in Victoria at time of publication), resulted in at least 440,000 Australians losing their jobs, affecting every community in the country.
- Potential risk of permanent consumer behaviour changes with a recent study indicating that 43 per cent of people will entertain more at home. With beer being the lowest preferred at home beverage as highlighted by being the biggest category drop in April.<sup>3</sup>

The combination of the above factors created what can be described as a perfect storm for the Australian brewing industry exacerbated by COVID-19.

## Long term industry headwinds

### Consumption and category decline

Overall alcohol consumption in Australia has been in long term decline, as consumers choose more premium options over volume.

Within the overall alcohol sector, wine and spirits share of consumption has increased while beer consumption has experienced long term decline.

The average, annual consumption of beer per adult has reduced by almost 15 per cent since 2009-10, reducing from 105 litres per year per person to under 90 litres per person in 2017-18.

Further the category decline between 1967-68 to 2017-18, the proportion of apparent consumption of different alcoholic beverages have changed substantially with decreases in the consumption of beer (from 73.5% to 39.0%) and increases in the consumption of wine (from 14.4% to 38.6%).<sup>4</sup>

There are real concerns that COVID and the current economic climate will exacerbate this, further impacting the beer industry as well as the revenue generated for government receipts.

### Excise increases

The existing beer excise is fundamentally a tax on the people who can least afford it, that being working Australians. It automatically goes up every six months and has been consistently going up twice a year since 1983 until CPI retreated this year. That is 35 increases in a row.

These increases represent approximately an additional \$70 million each year. Despite the excise increases, Government revenue has remained almost the same even as beer consumption has decreased. What it does reflect is a smaller group paying more.

A typical carton of beer sells for \$52 of that, \$22.05 of that is tax. That is 42 per cent in tax, which is the single biggest cost out of the price of an Australian made beer. Tax costs more than the ingredients, production, packaging, freight, advertising, retail overheads or profit.

Australians pay the fourth highest beer tax in the industrialised world. At \$2.26 per litre for packaged beer, Australians pay 17 times more beer tax than Germany (\$0.13), 15 times more than Spain (\$0.15), 7 times more than the US (\$0.31), 6 times more than Canada (\$0.35), 4.5 times more than France and Italy (\$0.50) and approaching double that of New Zealand (\$1.26). Australians pay one-third more than the UK (\$1.52).

Excise has had a direct impact on beer consumption given the inequitable tax setting.

Australian tax on beer has, over the past 35 years, made the purchase of beer in pubs and clubs prohibitively expensive. Given the clear trends towards moderation in Australia it's time that hardworking Australians got a break, with Government making beer just a little more affordable.

### RECOMMENDATION

Support the Australian brewing industry and hospitality businesses by cutting beer excise, or at the very least, freezing it.

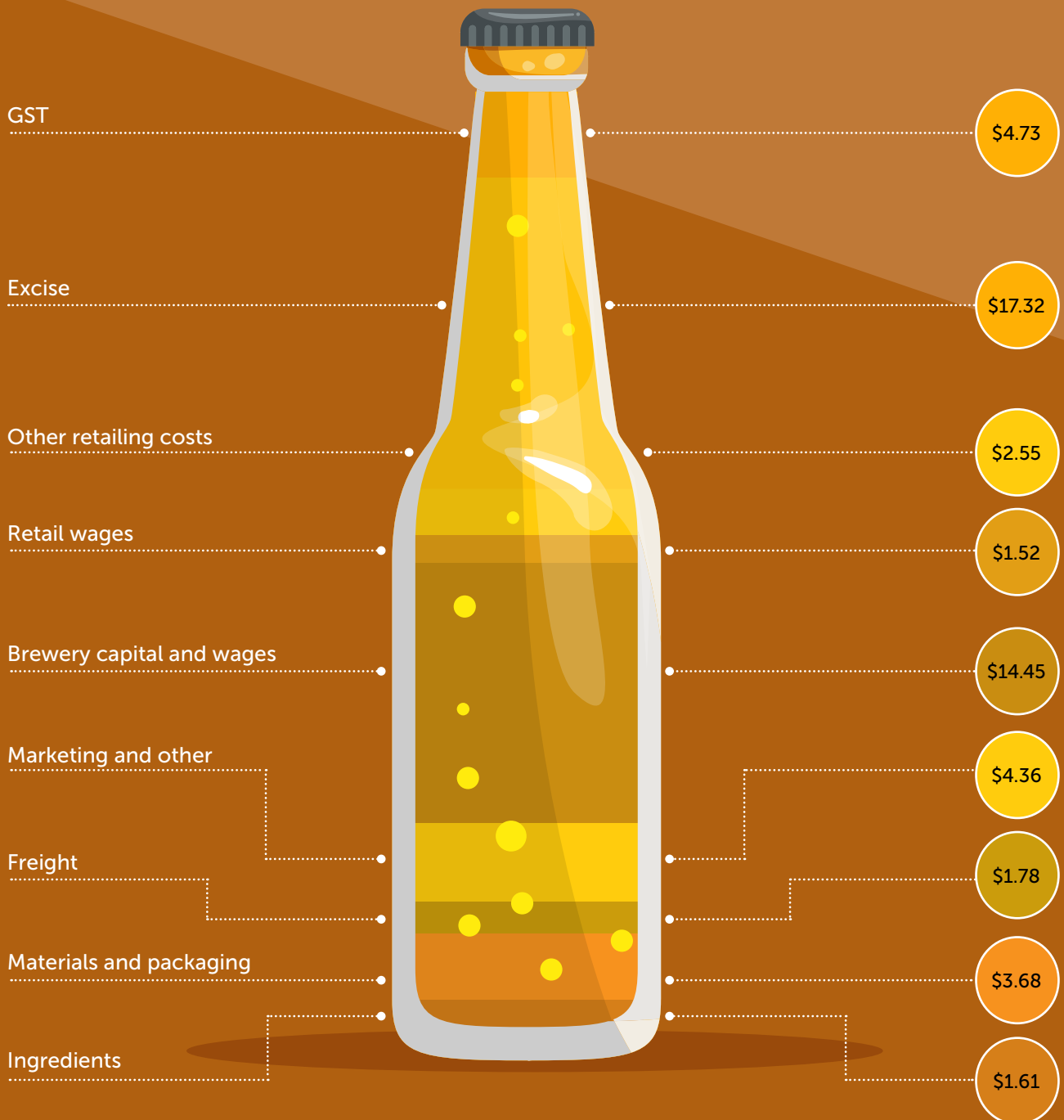
### Cumulated increased regulatory costs

A range of recent and upcoming regulatory changes are presenting significant cost burdens on the Australian brewing industry.

Such regulatory decisions can have direct impacts on reinvestment and job sustainability. In the current climate, these decisions must consider the real and direct job losses.

<sup>4</sup> [www.aihw.gov.au/reports/alcohol/alcohol-tobacco-other-drugs-australia/contents/drug-types/alcohol](http://www.aihw.gov.au/reports/alcohol/alcohol-tobacco-other-drugs-australia/contents/drug-types/alcohol)

## Australians pay the fourth highest excise (tax) on beer in the industrialised world



Note: Calculations are based on a 24-bottle carton of 375ml bottles of 4.9% LAL beer costing \$52.

Source: ACIL Allen Consulting, *Economic Contribution of the Australian Brewing Industry 2018–19 from Producers to Consumers*, March 2020.

### Container Deposit Schemes

The BAA members have led the administration of Container Deposit Schemes for more than 40 years in Australia. The schemes, which charge producers per container both a refund amount and an administration fee, are designed to drive recycling and litter reduction.

BAA supports the goals of Container Deposit Schemes, but seeks to highlight that ongoing and anticipated escalating container returns has seen increases in wholesale prices via higher per container costs.

Increases in the costs of operational schemes are expected to cost the industry more than \$20m each year, while the introduction of future schemes represents approximately an additional \$150m, each year.

### Pregnancy labelling

The recent pregnancy labelling decision made by the Australia and New Zealand Ministerial Forum on Food Regulation will cost the alcohol industry in the vicinity of \$400m over the next three years as these changes are implemented. The industry had been calling for a sensible middle ground option, requiring mandatory labelling, with the full health message but instead of mandatory colours (which generate the significant costs) having contrast colours consistent with Food Standards guidelines. BAA acknowledges the decision has been made and will over the next few years implement such changes.

It is, however, prudent in the context of a budget submission to articulate the impacts of this measure.

There is no question that BAA and the entire alcohol industry believe FASD is entirely preventable and further measures should address this issue. However, we implore the Government to use targeted evidence-based health policy to do this taking into account the actual costs to business and what that may mean for jobs.

### RECOMMENDATION

That government decisions, which materially impact our industry, are considered by the whole of government. To ensure this occurs across all jurisdictions consideration should be given to the matter by the National Federation Reform Council.

### COVID-19 impacts

On the 23 March, more than 12,000 on-premises customers were required to close down their bars, cafes, clubs and pubs to protect the Australian community. This saw more than 440,00 Australians lose their jobs affecting every community in the country and resulted in \$8.5 billion being wiped from venues sales as a direct result of closing for COVID.

From a beer perspective, the closures saw more than 20 million schooners being poured down the drain.

The accelerated market decline is also highlighted in the June 2020 quarter where keg sales were down significantly which was during a quarter where many venues in Australia started to reopen.

Despite media coverage indicating off-premises (bottle shops) beer sales were increasing, the opposite is true. Consumers did, in one of week of March as part of the general 'panic purchasing' buy large quantities. However, this was followed by April which was the worst month on record for beer sales. This is evidenced in the excise being paid to the government via the Australian Tax Office (ATO).

Potential risk of long-term consumer behaviour changes with a recent study indicating that 43 per cent of people will entertain more at home coupled with beer being the lowest preferred at home beverage as highlighted by being the biggest category drop in April.<sup>5</sup>

The brewing industry is committed to working with the Australian Government to, where possible, assist in the social and economic recovery in response to COVID-19.

Among other initiatives, to date BAA members have:

- > Lent their popular and powerful brands to spreading safety measures through mass media campaigns,
- > Kept Australians connected through virtual venue events,
- > Supported the development of the DrinkWise resilience podcasts launched by the Prime Minister,
- > Absorbed more than \$50 million of dollars in keg returns,
- > Extended credit to our customers and,
- > Provided growlers to customers so they could continue to sell draught beer.

There are significant economic challenges ahead for many sectors and the brewing and hospitality sectors are no different. However, socialising in venues may not return to 'normal' for years to come, having a direct impact on venues, brewers and the entire supply chain. In fact, consumer data collated by BAA members indicated that post COVID, 43 per cent of respondents will entertain at home more frequently.<sup>6</sup>

COVID-19 is also increasing the cost-of-living pressures. These are already hurting the one million Australians who have found themselves out of work. This will inevitably have long lasting impacts on the hospitality sector as people won't and can't afford a beer at the pub or the local club. Inevitably this means publicans will not be able to employ or critically re-employ their staff as the restrictions are lifted and the economy starts to recover.

Further COVID-19 coupled with an unfair tax burden and high running costs is already seeing pubs in Australia close down.

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6 Lion COVID-19 attitudes & behaviour survey, May 2020

**RECOMMENDATION**

1. A significant domestic tourism stimulus package to capture the billions of dollars Australians would have otherwise been spent internationally.
2. Extending JobKeeper for hospitality.



In Rockhampton, the Great Western Hotel which was established in 1862, a pub and tourism attraction featuring a rodeo arena was forced to close in June 2020 with the owners Colin and Vickie Bowden saying:

“The Great Western Hotel is an iconic local tourist destination which is heavily dependent on overseas and interstate visitors.

“The social distancing restrictions, border closures and travel restrictions have had a major impact on the Hotel.

“The Great Western is also reliant on major rodeos and music events both of which it is uncertain when they can resume.”



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