

**Brewers Association Pre-Budget Submission**

**Proposal for a 50 per cent cut to the excise rate for draught beer to boost Australia's brewing and hospitality sectors and create more local jobs**

## Executive Summary

As the representative association for Australia's largest brewers we are asking the Morrison Government in the upcoming Federal Budget to support Australia's pubs, clubs and brewing and hospitality sectors by reducing the rates of excise on draught beer by 50 per cent. We ask for a reduction specifically in the draught beer tax because it will disproportionately assist hospitality businesses - draught beer constitutes around 70 per cent of alcohol sold at pubs and clubs.

Australia's beer tax rate is the 4th highest in the OECD<sup>1</sup> and, with a couple of exceptions, it has been going up twice a year for more than 35 years. With a pint of beer now over \$10 in most places, catching up at the pub with mates for a beer is becoming unaffordable for many Australian working people.

The next beer excise increase will be on 1 February and will be one of the biggest hikes in over a decade. With Australians facing cost of living pressures, we believe it is time that the 11 million Australians who enjoy a beer at their local get some relief from high beer taxes. Australians clearly agree, with YouGov poll published on 24 January 2022 finding 50 per cent of respondents said "the cost of things like food... and the price of beer will determine which way they vote in this year's Federal Election."<sup>2</sup>

A beer tax cut would also help create hospitality jobs. Pubs and clubs employ hundreds and thousands of Australians. Pubs and clubs have told us they want to create up to an additional 74,000 jobs but as they rebuild from COVID-19 lock downs and slow trade but the high rate of beer tax is holding them back. They need a break from Government.

Importantly, the overwhelming benefit of a draught beer tax cut would be delivered to Australians and the Australian economy because of the domestic nature of brewing and hospitality. More than 80 per cent of the beer consumed in Australia is brewed in Australia.

As other countries cut their beer tax to help the hospitality industry or ease pressure on consumers, our beer tax rate is increasingly out of step with comparable countries like the UK and vastly higher than other major beer producing nations such as Germany, the US and Belgium where the rate is less than a quarter of what we pay here.

There is a strong economic case for a cut with brewing and beer sales in on premise venues contributing over \$12.5 billion<sup>3</sup> to the economy. There are 16,500<sup>4</sup> Australians directly employed by the brewing sector and its supply chain and a further 66,000<sup>5</sup> jobs in hospitality venues that are associated with the sale of beer.

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<sup>1</sup> Excise duties on beer: Australia versus other high-taxing countries, Professor Kym Anderson, School of Economics and Public Policy, University of Adelaide, October 2021

<sup>2</sup> The Daily Telegraph YouGov Survey, 24 January 2022

<sup>3</sup> ACIL Allen, Economic Contribution of the Australian Brewing Industry, 2017/18

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

We note, from a public health perspective, that Australians today are drinking more moderately than ever before with per capita beer consumption down 60 per cent since the mid-1970s.<sup>6</sup> Australians, through the greater moderation they have shown, have earned the right to lower draught beer taxes.

The Brewers Association recently commissioned the Centre for International Economics (CIU) to undertake a survey of hospitality business owners to assess the impact a tax reduction would have.<sup>7</sup>

The results of the survey show the following benefits of this measure.

Survey results - benefits for beer drinkers:

- “Due to increasing costs faced by pubs and clubs draught beer is already expensive relative to packaged beer — on average beer drinkers in pubs pay up to 3.5 times the price of the equivalent packaged beer bought from bottle shops (for the equivalent drink size) in metropolitan areas and 2.9 times across Australia’s regions — comparing the cost of draught beer with a carton (for the equivalent drink size).”
- “This cost pressure on pubs and beer drinkers is getting worse with COVID-19 issues and further tax rises. With a further tax increase due on 1 February 2022 between August 2021 and 2022 tax on draught beer is likely to increase by well over 2.8 per cent and hospitality wages by over 6 per cent.”

Survey results - benefits for hospitality businesses and jobs:

- “Licensed venues are doing it tough wither businesses experiencing losses of between 70 and 90 per cent of the beverage and food revenue — through and following the lockdown periods — and chronic labour shortages as staff left for other industries.”
- “These venues see sales of draught beer as crucial to their businesses. Excise indexation and higher wages reduce their competitiveness compared to home consumption of packaged beer.”
- “A 50 per cent cut in excise on draught beer, over the next year, would provide a benefit of up to 73 cents per litre on full-strength draught beer. The benefit to businesses depends on their turnover of kegs — for a medium-sized venue this would be worth \$58 00 per year.” (ibid.)
- “Businesses contacted said that money would principally contribute to recruitment and training of staff to improve the attractiveness and service levels in venues.” (ibid.)
- “It is estimated that across employing businesses, the excise cut could contribute to 18 500 new full time equivalent (FTE) positions or alternatively up of over 37 000 part time and casual jobs.” (ibid.)
- “As a guide, a KPMG (2016) analysis showed that in 2015 for every one FTE employed in Registered Clubs across Australia, one at least additional or indirect FTE was supported elsewhere in the economy. This could increase the potential employment impact up to 37 000 persons on an FTE basis or 74 000 persons on a part time or casual basis.” (p.10).

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<sup>6</sup> Australian Bureau of Statistics, Apparent Consumption of Alcohol, 207-18

<sup>7</sup> Centre for International Economics, The benefits of a 50 per cent cut in draught beer excise, January 2022

## Reducing Australia’s World Leading Beer Tax

Australia’s beer taxes have been increasing twice every year, with a couple of exceptions, for more than the past 35 years. The current rate for draught beer is \$36.98 and \$52.49 for pack beer and, even at the lower draught rate, these are the fourth highest rates in the OECD and will, unenviably, rise to the third highest next year.

The next tax increase is due on 1 February 2022 and, at 2.1 per cent, this will be the largest increase in over a decade. This will hit hospitality and the workers they employ just when they are trying to recover.

It’s the right time for the Government to take action to make the tax fairer for Australia’s world-class hospitality and brewing sectors and Australia’s 11 million beer drinkers. Other countries such as the UK are reducing their beer tax to protect their brewing industry, grow hospitality jobs and assist businesses to recover from COVID-19. Australians clearly agree, with YouGov poll published on 24 January 2022 finding 50 per cent of respondents said “the cost of things like food... and the price of beer will determine which way they vote in this year’s Federal Election.”<sup>8</sup>

As other countries like the UK cut their beer tax to help the hospitality industry or ease pressure on consumers, our beer tax rate is increasingly out of step with comparable countries like the UK and vastly higher than other major beer producing nations such as Germany, the US and Belgium where the rate is less than a quarter of what we pay here.

The table below shows the beer tax rates in the four highest taxing jurisdictions in the OECD with selected rates for OECD member countries below.

### Beer tax in Australia

Australia has the fourth highest beer tax in the OECD.



Source: Excise duties on beer: Australia versus other high-taxing countries, Professor Kym Anderson, School of Economics and Public Policy, University of Adelaide

<sup>8</sup> The Daily Telegraph YouGov Survey, 24 January 2022

## **Proposal for a Reduction in Draught Beer Excise**

We are calling for the current tax rate of \$36.98 per litre of alcohol for draught beer (and other tax rates for varying strengths of draught) to be reduced by 50 per cent. This equates to a cut of just over 5 per cent to the \$2.5 billion (\$140 million) in beer tax paid every year targeted at draught beer only.

A 50 per cent reduction in the draught beer tax would mean the rate would drop from \$36.98 per litre of pure alcohol to \$18.49 per litre of pure alcohol for full strength draught beer.

We believe this should be a permanent measure to reduce upward pressure on draught beer prices for consumers, which will encourage people to frequent pubs and clubs.

A 50 per cent reduction would be the equivalent of the following amounts on various serves of draught beer:

- Pot/midi – \$0.20 reduction in tax payable
- Schooner – \$0.30 reduction in tax payable
- Pint – \$0.40 reduction in tax payable

This would be a one-off decrease with the rate then increasing in line with CPI twice yearly following the reduction. The change would not impact the rates for pack beer.

A 50 per cent reduction in the draught beer tax would mean the rate would drop from \$36.98 per litre of pure alcohol to \$18.49 per litre of pure alcohol for full strength draught beer. The mid-strength draught beer rate would drop from \$28.23 per litre of pure alcohol to \$14.11 per litre of pure alcohol and the light draught beer rate would drop from \$9.01 per litre of pure alcohol to \$4.40 per litre of pure alcohol.

We believe this should be a permanent measure to reduce upward pressure on beer prices for consumers and ensure pub and club operators can compete with sales through bottle shops.

## **Centre for International Economics (CIE) Survey of Pub Owners**

To better understand the potential benefits of this cut across Australia, the Brewers Association has commissioned the Centre for International Economics (CIE) to conduct a targeted survey across owners and operators of licensed premises.

The survey covered Australian Hotels Association (AHA) members who operate over 50 licensed venues, across:

- a range of businesses sizes — from family owned through to corporate
- metropolitan and regional Australia.

A copy of the CIE's report with analysis of the findings of the survey is *attached* with this submission.

Key findings of the survey and analysis by the CIE are as follows:

### **Pubs and clubs make an enormous contribution to our economy**

There are 6,670 pubs, and taverns and over 6,000 clubs across Australia — with over 90 per cent of these businesses and clubs employing 20 persons or fewer.

The Australian Hotels Association (AHA) represents more than 5,500 hotels and resorts across the state and territories. Significantly, more than 3,200 of these hotels and resorts are in regional Australia — servicing both local residents and tourists.

These hotels and resorts are also significant employers providing nearly 900,000 full and part-time and casual positions across Australia during normal business conditions.

A census of the National Registered Club industry from 2015 found that there were 6,413 clubs that directly employed 131,000 people, paying wages and superannuation of \$4.3 billion.

### **Draught beer is an important product for pubs and clubs but taxes and other costs have driven prices up**

Draught beer makes up on average around 70 per cent of alcohol sales volumes of an average pub. In their survey responses pub owners said that draught beer was a crucial point-of-difference in their offering to consumers — compared to the alternatives such as: entertaining and consuming packaged beer at home and dining-in at restaurants and other food service.

However, they also indicated that draught beer is already expensive relative to packaged beer — on average more than twice the price of the equivalent packaged beer (for the equivalent drink size).

The indexation of beer excise between August 2021 and 2022 in combination with upward pressure on wages will only exacerbate this trend. Between August 2021 and 2022:

- excise on draught beer is likely to increase by over 2.8 per cent
- wages by over 6 per cent.

### **The hospitality sector has done it incredibly tough during the Pandemic and the damage continues**

We estimate that draught beer sales for 2020 dropped by approximately 30 per cent meaning a reduction in beer sales for pubs and clubs of well over \$1 billion. ATO clearance figures show a decline for 2021 of over 20 per cent from pre-pandemic levels.

For the past 18 months, the survey found that hotel revenue across food and beverages was down between 70 and 90 per cent during the lockdown periods.

- Losses were experienced across all parts of the industry beyond those in lockdown periods (such as metropolitan Melbourne and Sydney) but also those in regional areas.
- Businesses responded by standing-down and putting-off casual and then part-time staff, often leaving a core of skilled-permanent staff, such as operational managers and head chefs.

Forced closures and restrictions associated with the Omicron outbreak during the summer period 2021/22 have also had a significant impact on venues seeking to recover after lockdowns. Venues have reported drops in beer sales of 50 per cent even from the Pandemic affected Christmas-Australia Day period last year.

Additionally, per capita beer consumption dropped by 60 per cent between 1974/75 and 2017/18 (ABS, Apparent Consumption of Alcohol, 2017-2018 ), which is particularly important for Australia’s pubs and clubs as 70 per cent of their overall alcohol sales are beer.

**The benefits of a tax cut on hospitality jobs are significant**

All of the hoteliers contacted were employers and indicated that they would use proceeds from an excise cut to recruit and train additional staff following losses from the lockdown periods, or freeze or reduce the price of draught beer.

For those venues that would use the proceeds for employment:

- Medium-sized venues indicated that it would be feasible to employ at least one additional full-time-equivalent or a number of part-time positions from the proceeds of an excise cut.
- Larger businesses contacted were more ambitious saying that they were looking for a large number of positions across a range of skills from waiting staff to chefs and middle-managers.

Across the hospitality industry using draught beer, the excise cut could directly fund up to 2,454 FTEs or 4,785 part-time equivalents.

- 40 per cent of this employment will take place in regional Australia
- 57 per cent of this employment would occur in small businesses employing less than 20 people.

However, business owners surveyed indicated that the requirement for staff was significantly higher than what could be directly funded by the excise cut. Therefore, businesses would leverage the excise cut to both recruit and train new staff.

It is estimated that across employing businesses, the excise cut could contribute to 18,500 new FTE positions or 37,000 new part time positions.

Importantly, a number of the businesses surveyed also indicated they would use the proceeds of a tax cut to either freeze or reduce the price of draught beer. These businesses tended to be larger pubs selling higher volumes of draught beer where holding the price down or even reducing it could increase patronage.

**Policy Costing**

The Centre for International Economics (CIE) has provided a detailed costing analysis for the proposal which is included as an appendix to this submission.

The summary table for their costing (together with projected total revenue from beer excise and alcohol tax more broadly) is set out below:

\$ million	2021-22	2022-23	2023-24	2024-25	Total
Budget impact of 50% reduction in draught beer rates	-153	-153	-152	-149	-607
Total beer excise revenue	2,600	2,660	2,750	2,890	10,900
Total Alcohol Tax Revenue	7,420	7,620	7,880	8,260	31,180

Source: Centre for International Economics

## **Australian's are drinking more responsibly**

Australian brewers are heartened by the fact that Australians are drinking more responsibly, with alcohol consumption having reduced by more than 25 per cent and beer consumption per capita having reduced by 60 per cent since the 1970s. We are proud of the fact that beer has led the way in providing drinkers with more options to moderate their drinking, with more than 25 per cent of beer sold in Australia now low and mid-strength beer.

Australians, through the greater moderation they have shown, have earned the right to lower draught beer taxes.