



REPORT

The benefits of a 50 per cent cut in draught beer excise

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Brewers Association
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Introduction

The Brewers Association (BA) is proposing to the Australian Government that the excise on draught beer be reduced by 50 per cent.

This cut represents \$150 million in excise revenue — and is designed to assist licensed premises with the recovery of their business following the COVID-19 restrictions.

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

There are over 11 000 licensed premises that sell draught beer across Australia that include pubs, taverns, bars, hospitality and sports clubs.

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 and jurisdictions.

The impact of COVID-19 and subsequent lockdowns has been devastating across hotels, clubs and resorts. Production of draught beer has fallen by 30 per cent on an annual basis. It is estimated that that over \$1 billion was lost in retail sales of draught beer in both 2020 and 2021.

Executive Summary

Key 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).¹
- 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.

The indexation of beer excise over the next 5 years — in combination with upward pressure on wages can only exacerbate this trend.

- The excise increase announced by the ATO for February 2022 is *2.1 per cent* —the largest excise increase since August 2011.
- Using the February 2022 rate, excise could increase by *23 per cent* over the next 5-years indexed twice-a-year.

¹ This differential is 2.5 and 1.9 times based on a 6-pack cost at retail level.

Key benefits for hospitality businesses and jobs:

- Licensed venues are doing it tough with 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 \$58 000 per year.
- Businesses contacted said that money would principally contribute to recruitment and training of staff to improve the attractiveness and service levels in venues.
- 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.

Licensed premises are crucial to local communities

There are 6 670 pubs, and taverns and over 5 000 clubs across Australia — with over 90 per cent of these businesses and clubs employing 20 persons or less (see table 1).

1 Number of businesses in hotels and clubs June 2021

Employee range	Pubs, taverns and bars		Clubs ^a	
	no	%	no	%
Non-employing	1 672	25.1	1 900	38.0
1-19 persons	3 650	54.7	2 330	46.6
20-199 persons	1 330	19.9	717	14.4
200+ employees	18	0.3	42	0.8
Total	6 669	100	4 995	100.0

^a Clubs include ABS Class 433 - Hospitality Clubs and Class 332 Sports and physical recreation clubs, teams and sports professional Clubs. Where alcohol is sold on and off-premise, businesses and clubs are included in Pubs, clubs and taverns.

Source: ABS, Counts of Australian Businesses, including Entries and Exits, June 2017 to June 2021, Catalogue. 8165.0

The Australian Hotels Association (AHA) represents more than 5 500 hotels and resorts across the state and territories (see table 2). Significantly, more than 3 200 of these hotels and resorts are in regional Australia — servicing both local residents and tourists.

2 Hotels and resorts by jurisdiction and region^a

State	Metropolitan	Regional	Total
	no	no	no
New South Wales	818	1 310	2 128
Victoria	384	499	883
Queensland	236	579	815
South Australia	268	236	504
Western Australia	374	447	821
Tasmania	130	137	267
Northern Territory	73		73
Australian Capital Territory	86		86
Australia	2 369	3 208	5 577

^a AHA Members. Hotels includes pubs, taverns and bars.

Source: Australian Hotels Association.

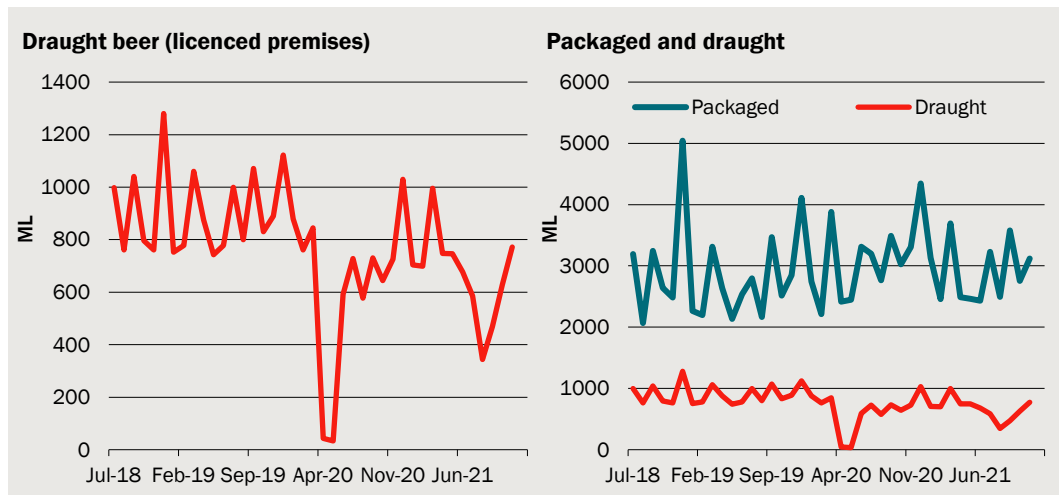
These hotels and resorts are also significant employers providing nearly 900 000 full and part-time and casual positions across Australia during normal business conditions.

Licensed premises also include clubs ranging across a spectrum of sizes from small sporting clubs across regional Australia to large metropolitan leagues clubs located in metropolitan areas. In 2015, a census of the National Registered Club industry (including sports clubs) found that 6 413 clubs that directly employed 131 000 people, paying wages and superannuation of \$4.3 billion. Many of these clubs are small and rely on volunteers. For example, 880 small clubs represented 65 per cent of the sector in New South Wales.

Shift towards packaged beer consumed at home

The outbreak of COVID-19 and subsequent restrictions across Australia have had a devastating impact on licenced premises. A key indicator of this impact is the production of draught beer, as shown in chart 3, while production and sales of packaged beer increased.

3 COVID-19 has hit licenced premises^a



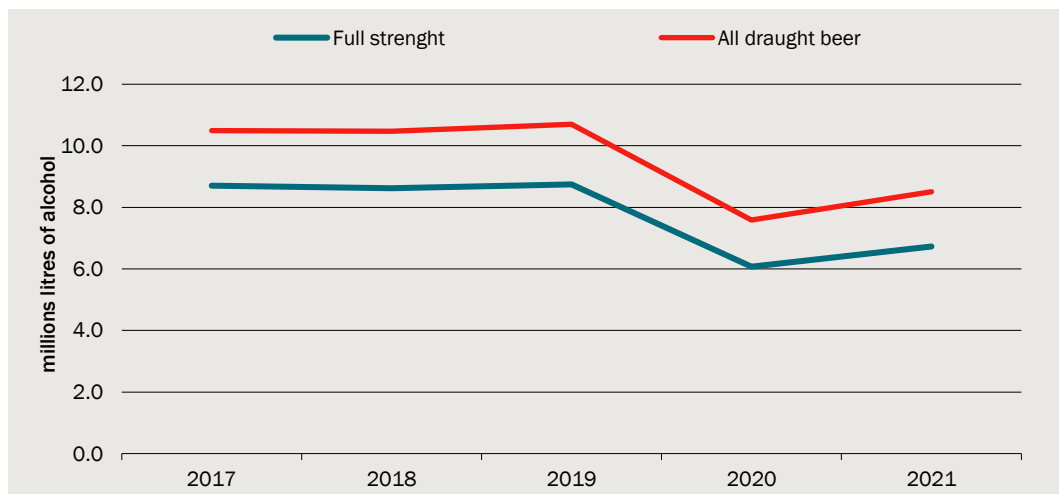
^a Hotels includes pubs, taverns and bars.

Data source: CIE.

BA estimated that sales of full-strength draught beer through pubs, clubs and other hospitality venues for the year ending December 2020 was *30 per cent* lower than the previous year — representing a drop of around \$1 billion in revenue from beer sales for hospitality venues.²

Chart 4 shows how sales of draught beer, has fallen since the outbreak of COVID-19 on an annual basis. Between 2019 and 2020, sales of all draught beer fell by **29.1** per cent.

4 Draught beer production^a



Data source: ATO Beer clearance Statistics and CIE estimates of last 2 weeks of December 2021.

² Brewers Association, Budget Submission March 2021.

- A similar picture emerged for 2021 where sales were 20.5 per cent lower than the pre-COVID period.
- At an average retail value of \$21.85 per litre (\$9.30 per schooner) across draught beer of all strengths, then the loss in turnover was over \$1 billion.

Licensed premises are doing it tough

Hotels and clubs already operate on tight margins. Across the pubs, taverns and bars in 2018-19, average retailing earnings before interest and tax (EBIT) were 10 per cent of turnover.³ 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.
- Staff that have been put off have moved to other industries where they believe have better security — especially middle-management skilled workers.

Losses in bar and meals revenue were offset to some degree by takeaway meals and bottleshop sales. This revenue enabled business owners to maintain core permanent employees.

Labour is a critical but increasing cost across beverage and food sales in pubs, taverns, bars and resorts. In 2018-19, wages accounted for 22 per cent of total turnover across the industry.⁴ Hoteliers contacted indicated that this could be as high as 30 per cent — especially where accommodation and other costs were required to attract and retain employees.

- Minimum wages for hospitality increased by 1.75 per cent in February 2021 (delayed from 2020) and a further increase of 2.5 per cent in November 2021. This is on top of the increase in superannuation guarantee in July 2021.
- Between March 2020 and March 2022, wages in accommodation and food services are likely to increase by a minimum of 5 per cent.⁵ In addition, wages paid are increasing more to attract staff back into the industry.

Businesses contacted universally identified not only skilled shortages but also severe labour shortages that:

- increased service times and reduction in customer experience

³ ATO Business benchmarks for Pubs, taverns and clubs

<https://www.ato.gov.au/Business/Small-business-benchmarks/In-detail/Benchmarks-A-Z/L-Q/Pubs,-taverns-and-bars/#Performancebenchmarks>

⁴ ATO Business benchmarks for Pubs, taverns and clubs.

⁵ Between March 2020 and September 2021, wages in accommodation and food services increased by 2.6 per cent. (ABS Catalogue 6145.0, Wage Price Index Australia)

- increases the pressure on owners and managers to work with fewer staff
- makes hospitality less attractive given the working hours.

Training and re-skilling of staff was seen as crucial to resuming normal operations in hotels and resorts.

Tap beer is crucial to attracting patrons

A common theme from hoteliers contacted was 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, exacerbating the impact of COVID-19 restrictions on venues: draught beer is already expensive relative to packaged beer — on average is significantly more than *twice* the price of the equivalent packaged beer.

- 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 the retail price of a carton.
- This difference remains significant at 2.5 and 1.9 times, based on a 6-pack cost at retail level.

The indexation of beer excise over the next 5 years — in combination with upward pressure on wages can only exacerbate this trend.

- The excise increase announced by the ATO for February 2022 is *2.1 per cent* — the largest excise increase since August 2011.
- Using the February 2022 rate, excise could increase by *23 per cent* over the next 5-years indexed twice-a-year.

Hoteliers consulted indicated that it would be vital, at minimum, to maintain current pricing to remain competitive with customers choosing to packaged beer outside of licensed premises.

An opportunity for pubs taverns and bars to more competitive

A 50 per cent cut in excise on draught beer would provide an immediate benefit of 72 cents per litre for full strength beer ⁶ — which comprises over 70 per cent of keg sales. Averaging across all strengths, the benefit would be 55 cents per litre. ⁷

- At February 2022, this is equivalent to a reduction in cost of \$0.79 per litre or \$0.34 per schooner for the retail price of full-strength draught beer.

⁶ A 50 per cent reduction in excise on full-strength draught beer 4.9 per cent alcohol by volume, would reduce the excise rate in February 2022 from \$1.41 to \$0.69 per litre of draught beer.

⁷ Based on the February 2022 draught excise,

- Across all strengths, the 50 per cent excise cut represents a reduction of \$0.26 in the retail price of a schooner.

The benefits depend on the turnover of the business. Table 5 shows that benefits could range from \$17 389 for a small venue with an average turnover of 12 kegs per week — to more than \$188 000 for larger businesses. This money could be used in several ways including:

- reduce the price of tap beer for customers
- investing in recruitment and training of staff, paying off debt or maintaining and improving the venue.

5 Annual benefit of the excise cut to hotels, resorts and clubs

Venue size	Sales — kegs per week		Annual benefit	
			Full strength draught beer	Average across all draught strengths
	Range	no	\$ per business	\$ per business
Small	<20	12	22 623	17 389
Medium	20-60	40	75 411	57 963
Large ^a	>60	100	188 528	144 909

^a One large business contacted used an average of 500 kegs per week.

Source: CIE and survey of AHA members.

All of the hoteliers contacted were employers and unanimously indicated that the proceeds from an excise cut would be used to recruit and train additional staff following losses from the lockdown periods.

- 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.⁸
- Larger businesses contacted were more ambitious saying that they were looking for a large number of positions (some up to 200 full and part-time staff) across a range of skills from waiting staff to chefs and middle-managers.

The potential benefits are substantial

The businesses that sell draught beer throughout hospitality and vary from small businesses without employees through to corporate ownership of over 200 venues.

- For a smaller venue with less than 20 employees and that sell up to 12 kegs per week, the value of the excise cut would be \$21 800 in the first year. This would directly fund up to 0.4 of an FTE or 0.7 part-time workers.
- In the case of a medium-sized business that has a turnover of 40 kegs per week, the excise cut could fund 0.9 FTEs or 1.8 part-time employees.

⁸ In May 2021, total weekly earnings for full time adults in the Accommodation and Food Services sector were \$1 265 and \$1 133 for males and females or an average of \$62 000 per year. Source: ABS Average Weekly Earnings Industry Australia, Catalogue no 6302.0.

- For a multi-venue business that sold 500 kegs per week, the benefit could be in the order \$725 000 — that would fund 11 FTEs or 23 part-time workers.

Across the hospitality industry using draught beer, the excise cut could directly fund up to 2 454 FTEs or 4 785 part-time equivalents.⁹

- 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.

These benefits exclude venues without employees — where the excise cut would be passed onto customers to maintain or reduce tap prices.

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.

The potential increase in employment across Australia is significantly higher over the next year. Based on survey results, table 6 shows across all hotels, resorts and clubs, the excise cut has the potential to contribute to a significant increase in employment.

6 Additional employment by hotels and clubs^a

Business size	Businesses ^a	Per business		Total employment	
		Full time	Part time /casuals	Full time	Part time /casuals
	no	no	no	no	no
Non-employing	3 572	0	0	0	0
Small <20 employees	9 564	1	2	5 992	11 985
Medium 20-100 employees	2 041	10	20	10 206	20 412
Large >employees	58	40	80	2 333	4 666
All venues	11 664	2.5	5	18 531	37 063

^a Includes Pubs, taverns and bars, hospitality and sporting clubs.

Source: CIE.

- This could include individual businesses employing between an additional 1 and 40 full-time equivalents (FTEs) in proportion to their size and employment.
- It is estimated that across employing businesses, the excise cut could contribute to 18 500 new FTE positions.

Alternatively, recognising that many full-time staff have been retained across the industry, these FTEs could be made up of over 37 000 part time and casual jobs. For some businesses, they will require a combination of both full and part time staff depending on availability of skills.

⁹ In May 2021, the average annual full-time wage for males and females in the Accommodation and Food Services was \$62 026 while the average part-time wage was \$31 815.

The employment of part time and casuals will require a substantial investment in training. Business owners indicated that in many cases, the labour force pool from which they are recruiting will be school leavers and the unemployed.

Flow-on impacts to employment

In current market conditions where there are chronic labour shortages across a range of service industries, the flow-on or indirect benefits of an excise cut are likely to be limited in the short term especially for skilled positions. Rather than increasing employment, the those directly employed by hotels, resorts and clubs receive higher wages and improved conditions.

Over the medium term when economic conditions stabilise, and restrictions on labour that have characterised the COVID period have eased, flow-on benefits of the excise cuts and matched investments by businesses should result.

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.¹⁰ 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.

¹⁰ KPMG 2016, *2015 National Clubs Census: Detailed Report*, August.