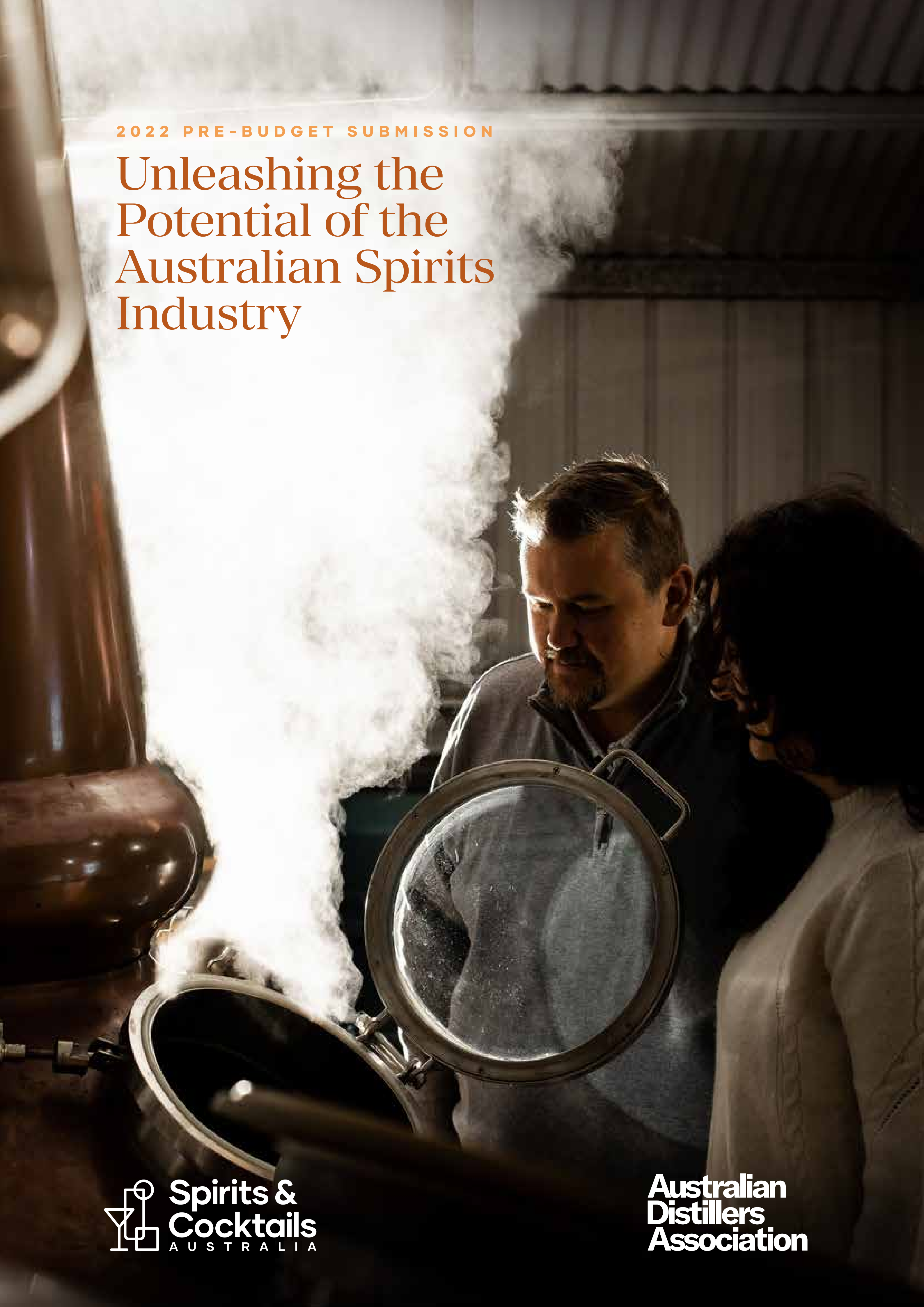
2022 PRE-BUDGET SUBMISSION

Unleashing the Potential of the Australian Spirits Industry



Spirits & Cocktails AUSTRALIA

Australian Distillers Association

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Cover image: Tara Distillery (NSW, Gilmore)

1. INTRODUCTION

The Australian spirits industry welcomes the opportunity to make a Pre-Budget Submission for consideration ahead of the 2022 Federal Budget.

This submission is lodged on behalf of Members of the Australian Distillers' Association and Spirits & Cocktails Australia who together represent spirits producers involved in the manufacture, marketing and sale of spirits throughout Australia, from global importers to local distributors. Our supply chain stretches from 'farm to glass', incorporating farmers and primary producers to the hospitality and tourism sectors.

Our industry directly supports over 52,900 jobs in spirits manufacturing, retail, wholesale and hospitality, contributing $11.6 billion in added value to the Australian economy. Eighty per cent of what our Members sell in Australia is produced in distilleries and manufacturing plants throughout the country.

We share a commitment to promoting a safe and vibrant spirits sector, which reflects Australia's mature drinking culture and creates opportunities for sustainable growth and economic development.

Archie Rose Distillery (NSW, Sydney)

UNLEASH THE **POTENTIAL**

Aligning the spirits excise rate with the brandy rate and freezing CPI increases for three years will facilitate sustainable growth and investment.

Australia's spirits industry is an impressive exemplar of what can be achieved when Australians embrace hard work, innovation and opportunity. Our industry has made remarkable progress since 2014, when Australia had fewer than 30 distilleries; this nation now boasts three times the number of distilleries found in Scotland, the country most widely renowned as the home of modern distilling.

But we are still only seeing a fraction of the potential that the Australian spirits industry represents.

This Pre-Budget Submission presents new data from Deloitte Access Economics, offering a detailed insight into the current state of Australia's spirits industry in order to highlight the great economic opportunities yet to be realised. Based on an in-depth national survey of spirits manufacturers, Deloitte's economic analysis reveals a growing industry that delivers economic benefits from farm to glass, with locally sourced grains and botanicals fermented, distilled and matured to produce high value-add products in the agri-food sector.

Overall, the economic contribution of the spirits industry in Australia in 2018–19 (before COVID disruptions) was $11.6 billion in total value add. The industry supports 52,900 jobs directly, predominantly in hospitality, one of the sectors hardest hit by pandemic lockdowns, and a further 51,600 jobs in indirect employment. Significantly, the industry maintains a particularly active presence in regional Australia, with about two-thirds of spirits manufacturers located outside metropolitan cities, employing about one-third of the industry's total workforce.

The Deloitte survey found Australia's distillers are also playing an increasingly valuable role within international and domestic tourism. Almost 121,000 international tourists visited a distillery in 2019, continuing a strong pattern of growth in recent years. The number of domestic tourists visiting distilleries is also growing, reaching almost 500,000 in 2019, with these visitors more likely to incorporate an overnight trip – and therefore to spend more money in the local community – than those visiting breweries or wineries.

2. EXECUTIVE SUMMARY

Spring Bay Distillery (TAS, Lyons)

> "We've won the world's best whisky and best gin; the best vodka and best brandy. The world is waking up to what we've always known – we make great spirits. But Australia's unfair tax regime is a handbrake on unleashing the potential of a growing industry."
>
> Cameron Brett, Founder, Spring Bay Distillery

But the great promise and potential of Australia's spirits industry is perhaps best demonstrated by the strong growth in exports over the past decade. Between 2011–12 and Deloitte's focus year of 2018–19, the value of Australian spirits exports rose 284% to $267 million, equivalent to average annual growth of 21%. Australian spirits exports now represent 9.5 times the value of beer exports. But there is still a substantial gap between the value of spirits and wine exports, with the value of the latter eight times larger than spirits exports. This margin illustrates the great potential yet to be unleashed in Australian spirits.

There is little doubt Australia's spirits industry will continue to grow in coming years. Reforms like the tax changes introduced in the 2021–22 Federal Budget, lifting the excise remission ceiling from $100,000 per financial year to $350,000, prompted a flurry of activity; about half of the Deloitte survey respondents noted the change had positively impacted their capital investment plans. But whether such growth can be sustained remains uncertain, as does the scale of the economic benefits that may flow around Australia – in jobs created, inputs bought and exports sold – should this promising industry reach its full potential more quickly. Certainly, there is a strong consensus among those familiar with the alcohol industry that Australian spirits are on the threshold of a boom similar to that of the wine industry in the 1980s. When governments back then recognised the potential and quality of Australian wine, they championed this industry's expansion through tax breaks and financial incentives for investment. Exponential growth and domestic activity followed, benefiting Australia's agriculture, tourism, and export industries.

Four decades later, the Federal Government again has the power to launch a distinctly Australian industry to international prominence. It has the opportunity to unleash multiple benefits that will flow through the Australian economy, including regional jobs growth, business investment and export opportunities.

Savvy governments know that higher taxes never deliver stronger growth. But spirits makers in Australia currently bear the burden of the third highest spirits tax in the world; with indexation, this load grows twice a year. Such a harsh and disproportionate tax, contrasted to other countries and categories, creates a significant disincentive to the global investors most needed for Australian distillers to expand into international markets. The investment interest is certainly there, as illustrated in this submission in case studies from Four Pillars, Starward, Brown-Forman and Mighty Craft.

This pre-Budget submission presents policy solutions to provide the conditions for growth and investment needed to elevate the Australian spirits industry to a domestic manufacturing and export powerhouse. Independent economic analysis from PwC shows that implementing our proposal to align the spirits excise rate to the brandy rate and freeze CPI indexation for three years will deliver an additional $766 million to the Budget bottom line over the forward estimates, without impacting overall alcohol consumption. Significantly, our proposal will also deliver benefits to publicans, bar and club owners impacted by recurrent lockdowns by reducing their cost of goods, as demonstrated in the case study on page 36.

Husk Distillers (NSW, Richmond)

The potential for an Australian spirits boom is there, waiting to be tapped. It is worth remembering that forty years ago, Australians socialising or dining out rarely had a choice of wine between "white or red". But thanks in part to the vision of policymakers at the time, Australia's varietals are known and celebrated around the world. Today, a similar decision by the Australian Government has the potential to build a legacy that will reward ingenuity and showcase Australian produce internationally yet again.

Fair and sustainable tax reform will unleash the potential of a fast growing, domestic manufacturing industry. It will create jobs, especially in the regions, stimulate investment to increase exports, and support a sustainable recovery by contributing to a positive impact on the Budget.

ECONOMIC CONTRIBUTION

$3.9 Billion Direct Value
$7.7 Billion Indirect Value

$11.6 BILLION
TOTAL VALUE ADD

Every **$1** of direct value add from the Australian spirits industry supports another **$2** throughout the wider economy

EMPLOYMENT

52,900 DIRECT JOBS

51,600 INDIRECT JOBS

47% SPIRITS WORKFORCE AGED UNDER 30

Spirits wholesaling
1,500 JOBS

Hospitality
36,000 JOBS

Spirits manufacturing
4,900 JOBS

Spirits retailing
9,800 JOBS

HOSPITALITY INVESTMENT

$305M
INVESTED IN HOSPITALITY, PROMOTIONS & SKILLS TRAINING

SUPPORTING JOBS

Every person employed in the Australian spirits industry supports another employed person elsewhere in the economy.

REGIONAL FOOTPRINT

65%

of distilleries located in regional areas

32%

industry workforce located outside capital cities

EXPORT

TOP EXPORT DESTINATIONS

1. **China** (30%)
2. **Singapore** (20%)
3. **New Zealand** (14%)
4. **Malaysia** (8%)

ANNUAL EXCISE

$3.6 BILLION EXCISE PAID PER YEAR

TOURISM

BENEFITS FROM FARM TO GLASS

Australia's spirits industry has an economic impact from farm to glass, with locally sourced grains, sugar cane and botanicals fermented, distilled and matured to produce high value-add products in the agri-food sector. The industry supports a long supply chain of activity. Various sectors provide important inputs, including agricultural production, the manufacture of glass, plastic and packaging materials, bottling lines, distribution services and business support activities such as advertising, legal and financial services. The retail, hospitality and tourism sectors provide for the sale and consumption of spirits in licensed venues and in the home, and attract domestic and international visitors to distilleries and tasting rooms, often found in regional centres.

Global businesses play an important role by providing raw materials (such as barrels for maturation), final products, investment and innovation to the local industry. In turn, local manufacturers, distributors and retailers access international markets by exporting our premium spirits overseas.

In 2018–19, the economic contribution of the spirits industry in Australia was $11.6 billion in total value-add (the sum of the gross operating surplus and labour income) and 104,500 jobs. This is comprised of a direct contribution of $3.9 billion in value add and 52,900 jobs, and a further $7.7 billion in indirect value add and 51,600 jobs in indirect contribution.

At the centre of this activity are spirits manufacturers, who contribute approximately $734 million in value added (19% of direct value added) and more than 4,900 jobs (9% of direct employment), before flowing through to the rest of the industry and beyond.

The spirits industry also contributes to indirect value-add throughout Australia, which captures flow-on economic activity derived from suppliers, inputs and other intermediate goods and services. For example, this encompasses everything from the agricultural inputs that feed into spirits distilling to professional services utilised by the industry, such as advertising and finance.

The spirits industry connects into more than 100 different subsectors across the economy, with the top sectors being predominantly professional and commercial services. The indirect value added supported by spirits manufacturing purchases was $1,341 million in 2018–19. Purchases of other manufacturing inputs, including glass and packaging manufacturing, equipment manufacturing, and agricultural inputs are three of the larger indirect sectors supported by spirits manufacturing directly.

Figure 1: Breakdown of top five indirect value added sectors for spirits manufacturing and spirits industry as a whole ($m), 2018–19

Spirits manufacturing

Manufacturing
$365m (27%)

Accommodation and Food Services
$268m (20%)

Professional Services
$223m (17%)

Agriculture, Forestry and Fishing
$121m (9%)

Other Services
$116m (9%)

Whole of spirits industry

Professional Services
$1,114m (15%)

Rental, Hiring and Real Estate Services
$985m (13%)

Financial and Insurance Services
$927m (12%)

Administrative and Support
$801m (10%)

Manufacturing
$717m (9%)

Spirits & Cocktails Australia commissioned Deloitte Access Economics to undertake analysis of the economic contribution of the industry in Australia. The analysis is primarily focussed on 2018-19 to profile the industry before COVID-19 disruptions. To inform the analysis, Deloitte Access Economics surveyed spirits manufacturers to gain insight into their financial structure and performance, and industry sentiment. By revenue, the survey covered approximately 62% of the spirits manufacturing industry. Survey data was supplemented with publicly available sources, particularly to inform the other segments of the spirits industry. These sources included ABS census data, IBISWorld, UN Comtrade, industry research papers and state liquor licensing data. This report is available on request.

Top Shelf International (Qld, Dawson)

CASE STUDY

Supporting value-added agriculture

Top Shelf International is an Australian diversified branded spirits company, whose core purpose is to promote, celebrate and enjoy our distinctive Australian way of life. The company is behind brands like NED Whisky and Grainshaker Vodka, and is now embarking on an ambitious project to create an Australian agave spirit category that showcases the very best of Australian processes and terroir.

Creating value from farm to glass

Top Shelf International is creating a new and sustainable Australian industry from scratch, with a 380-hectare Australian agave farm located south of Bowen in The Whitsundays in dry north Queensland. The farm was previously used for horticulture and cattle but currently boasts 500,000 agave plants in the ground, with a target of one million plants by 2024.

Repurposing marginal land

With ambitions to grow the industry beyond the boundary of their Eden Lassie Farm, Top Shelf International is establishing relationships with other primary producers, offering an agave crop to provide farmers with an alternative source of revenue on marginal land not viable for other types of crops.

Agave is a high value agricultural product that is more drought tolerant than traditional regional crops and requires less maintenance, so has great value in augmenting an existing crop farmer's otherwise unused land.

Providing job pathways and employment

The agave farm is planted with new seedlings year-round which assists with level loading for local service providers. With cropping available throughout the year, this provides nurseries and tissue culture providers with capacity to retain staff, including in what would traditionally be their off-season due to the seasonal nature of planting other local crops.

Pathways are being established for local youths to work in the agricultural industry, which assists in retaining young people in regional areas.

Supporting farmers

Top Shelf International also supports local farmers by sourcing grain, corn and barley for their Grainshaker Vodka and NED Whisky products from farmers across central and northern Victoria.

At the end of the distillation process, the spent grain is then provided to a farmer near Leongatha in Victoria to use as cattle feed for his stock. More than 50 tonnes of grain per week is provided free of charge, supporting local primary industry at both ends of the distillation process.

4.1. Employment

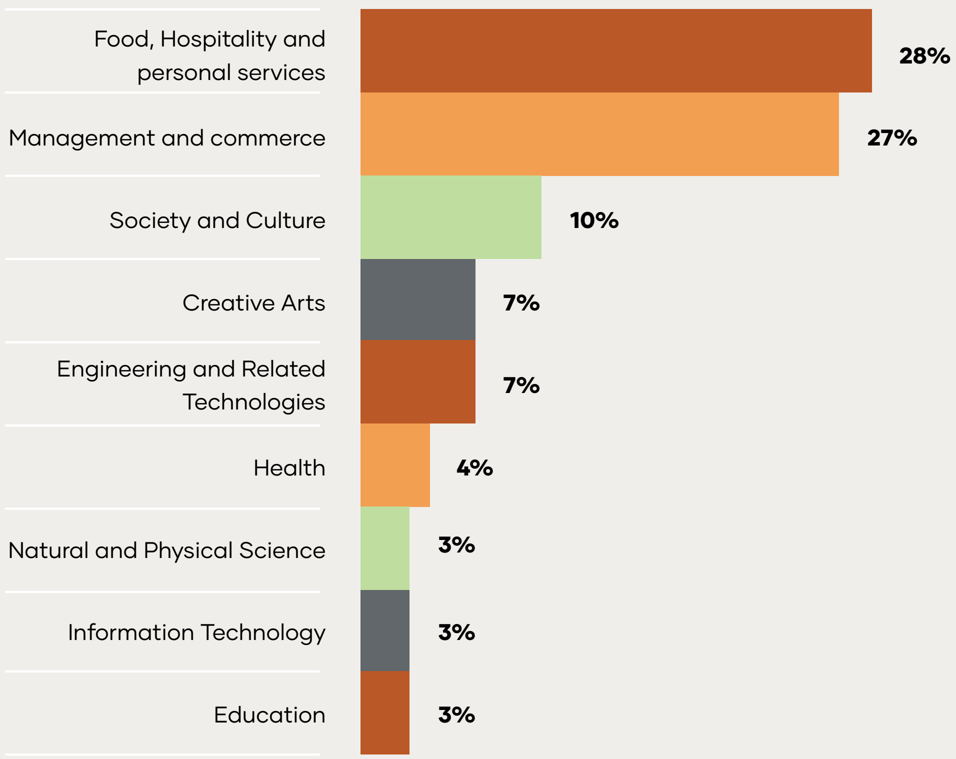
The spirits industry supports diverse employment throughout Australia. Jobs in the industry are predominantly in hospitality, comprising 69% of the industry in 2018–19. Spirits manufacturing employment is estimated at approximately 5,000 jobs (9%).

The spirits industry overall has a younger worker profile, with 47% of employees under 30. This is significantly higher than the national average and is most pronounced in hospitality, with 50% under 30, and spirits retailing (43%). Spirits wholesaling has an older worker profile, with only 16% under 30, and 25% over 50 compared to an average of 17% across the spirits industry. The gender distribution of the spirits industry at 48% female is on par with the economy-wide average.

The spirits industry has a higher share of part time workers (54%) than the national average of 35%. This is again driven by the hospitality sector, where 55% of jobs are part-time, and spirits retailing (53%). Spirits manufacturing and wholesaling both have a significantly higher share of full-time workers (67% and 79% respectively), above the national average of 65%.

Education and training are important components of the spirits industry. The spirits workforce comprises a diverse range of educational backgrounds, which the industry complements through training and investment in industry-specific skills. Across the whole supply chain, the top area of study is 'food, hospitality and personal services' (28%), followed by 'management and commerce' (27%). The qualifications of the remainder of the workforce are spread across a variety of study areas.

Figure 2: Top areas of study across the Australian spirits industry



Bass & Flinders Distillery (VIC, Flinders)

Backwoods Distilling Co. (VIC, Indi)

> "Whatever we save on tax, we can spend on people."
>
> Bree Attwood, Backwoods Distiling Co., Yackandandah (VIC, Indi)

Eighty-one per cent of spirits manufacturers expect to increase headcount in 2021–22. Two-thirds of distillers surveyed by Deloitte reported this decision was influenced by changes to the excise remission scheme announced in the 2021-22 Federal Budget.

"The rebate will allow me to put together a team for markets as well as establishing a permanent weekend cellar door for me so I can unleash the tourism opportunities working with tourism centres . It's a game changer" – Craig 'Crafty' Field, Craftworks Distillery (NSW, Calare).

"The rebate is allowing us to expand without pushing the bank loans. It has allowed us to feel confident in growing and making important choices within our business" – Mick Sheard, Imbue Distillery (VIC, Menzies).

"The change in rebate was the push that got me fired up again about starting up a distillery, going through the process and making it a reality" – Sam Wieland, Black Rabbit Distilling Co. (VIC, Nicholls).

4.2. Regional footprint

The spirits industry makes an important contribution to regional Australia, with a significant proportion of operations occurring outside our metropolitan cities. About 32% of the spirits industry workforce is located outside capital cities – and approximately 65% of spirits manufacturers are in regional and rural Australia.

In fact, the growth of the Australian spirits industry is such that we now have nearly three times the number of distilleries than in all of Scotland – however, Scotland boasts an industry of greater magnitude and output as their more favourable tax settings provide an environment rich for investment and growth.

Figure 3: Comparison of the number of distilleries in Australia and Scotland

From Deloitte's industry survey of spirits manufacturers, around 70% reported they operate in one state only. The remaining 30% of manufacturers is divided evenly between businesses who operate in two or three states and territories (15%) and those who operate in four to eight jurisdictions (15%). Of those who operate in multiple states, 67% are larger businesses who reported more than $1 million in revenue in 2018–19.

4.3. Tourism

Australia's spirits industry plays an important role in international and domestic tourism. During 2019, almost 121,000 international tourists visited a distillery, up from around 96,000 visitors the year before. Although wineries and breweries received a higher number of international visitors, visits to distilleries experienced the strongest growth (at 27% from 2018 to 2019, compared to 3% and 17%, respectively, for wineries and breweries), highlighting the industry's growth profile.

Meanwhile, Australian distilleries are also increasingly popular among domestic tourists with the number of domestic trips to a distillery, including both overnight and day-trips, reaching almost 500,000 in 2019. Domestic distillery visits were more likely to be associated with an overnight trip than visits to wineries or breweries.

Overnight trips are an important indicator for the level of associated spend in a destination. In 2019, 82% of domestic visitors to distilleries were on an overnight trip, compared to 54% and 68% of visitors to wineries or breweries, respectively.

At the distillery door, international and domestic visitors spent an average of $51 in 2019–20. In comparison to most tourism activities, visits to distilleries were relatively resilient to the effects of COVID-19 during 2020. While international visitors were prevented from travelling to Australia for most of the year, domestic interest in visiting distilleries remained strong during periods where travel was permitted. Despite lockdowns, state border closures and overall travel uncertainty, domestic distillery visits in 2020 fell just 2% on 2019 levels, while visits to wineries and breweries plunged 43% and 28%, respectively.

Distilleries add value to the visitor economy across Australia. For international visitors, New South Wales was the most popular destination to visit a distillery during their trip: the state welcomed approximately 35% of international visitors who visited a distillery in 2019. For international visitors more generally, the use of native ingredients – such as lemon myrtle, Tasmanian pepperberry and bunya nuts – can be particularly intriguing.

Distilleries also play a key role in supporting regional tourism, with the many distilleries located outside of Australia's major cities. For both international and domestic travellers, distillers doors and tasting opportunities are becoming significant attractions helping support surrounding businesses that benefit from increased travel to the region.

North of Eden (NSW, Eden-Monaro)

4.4. Capital investment

Spirits manufacturers must engage in significant capital investment before they can start producing spirits, with spirits manufacturing being much more capital intensive than later stages in the spirits supply chain. Under current excise laws, spirits manufacturers must be the owners of capital equipment like distilling pots in order to obtain licences and excise rebates.

Nearly three quarters (74%) of manufacturers reported some level of capital investment in 2018–19, with an estimated total capital investment around $159 million. This value fell in 2020-21, despite an increase in number entrants, likely due to COVID-19 disruptions and the accompanying economic uncertainty. Larger spirits manufacturers (those who reported $1 million or more in revenue in 2018–19) contributed approximately 95% of all reported capital investment.

Around 79% of spirits manufacturers surveyed by Deloitte have capital investment plans for 2021–22. Recent tax changes, including the amendments of the excise remission scheme which provides eligible manufacturers with a full remission of excise duty up to a maximum of $350,000 per financial year, have positively impacted these capital investment plans. About half of respondents surveyed by Deloitte have been influenced by recent tax changes to increase their capital investment.

CASE STUDY

Enhancing the visitor experience at Four Pillars

The Four Pillars gin distillery and visitor centre in Healesville, Victoria is the most visited destination in the Yarra Valley, ahead of every individual winery.

In 2021, the distillery embarked on a major upgrade of its distillery door to double its capacity to accommodate more than 200,000 visitors per year.

> "Having first-class experiences like Four Pillars Distillery is just so important for continuing to drive visitation to the region"
>
> Yarra Ranges Tourism chief executive, Simon O'Callaghan.

The $7 million redevelopment incorporates new hospitality, production and bottling facilities that blend with the distillery's current offering.

Such expansion has been made possible by Four Pillars' sale in March 2019 of a 50 per cent stake in the business to Lion Beer, Spirits & Wine, a subsidiary of Japanese beverage giant Kirin.

Yarra Ranges chief executive, Simon O'Callaghan, said food and wine have long been an anchor of the Yarra Valley tourism offering.

"We rely on businesses to keep investing in themselves, like Four Pillars are doing," said O'Callaghan.

Four Pillars Co-Founder and Head Distiller Cameron Mackenzie said Lion's investment and increased domestic tourism following COVID lockdowns gave the business the confidence to proceed with the ambitious project.

"I think this is 100 per cent the right thing to do if we want to be a global craft spirit brand.

"We have to have a strong home that makes a real statement, and that's what we're creating," said Mackenzie.

The new Visitor Centre will provide hospitality for up to 300 guests and will employ up to 100 full-time staff when it opens in March 2022.

Lion's investment in Four Pillars has also assisted the business to create a world class bar in Sydney and increase nets sales from $15 million to $30million, despite challenging conditions throughout the pandemic.

Reproduced from 'Good Food Magazine', 5 February 2021.

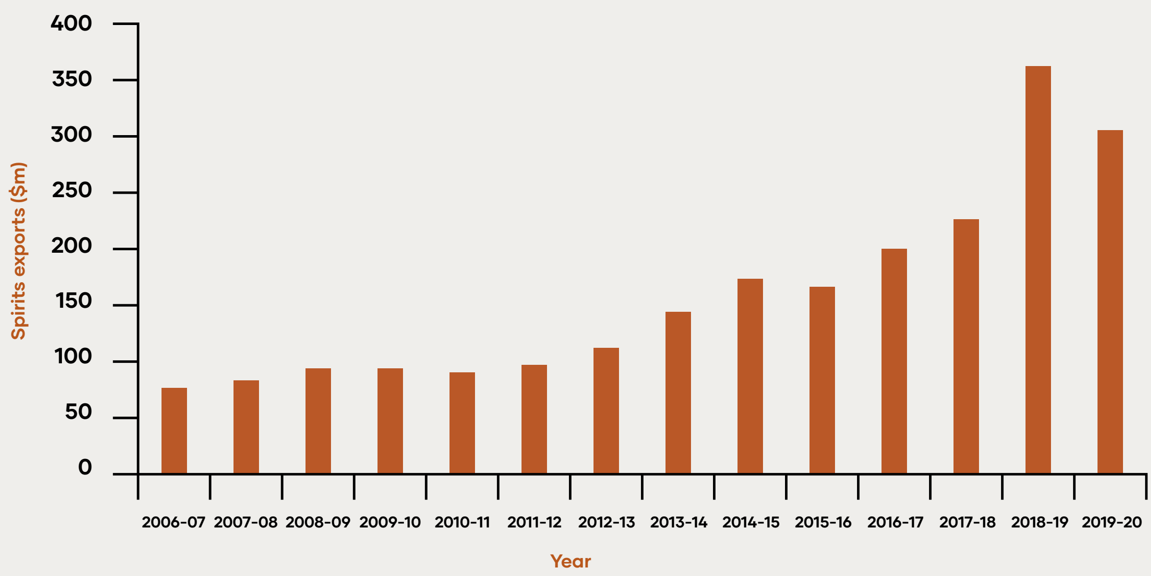
Four Pillars (VIC, Casey)

4.5. International trade

Over the past decade, Australian spirits exports have experienced rapid growth. In 2018–19, the value of Australian spirits exports increased to $361 million, an increase of 61% compared to the year before. This strong export growth has been part of decade long trend for the industry, with the value of spirit exports rising by $267 million since 2011–12 when exports totalled $94 million. Within seven years, spirits exports rose 284%, equivalent to average annual growth of 21%.

The increase in Australian spirits exports outpaced beer and wine, which rose 8.5% and 6.4% on average per annum between 2011–12 and 2018–19. As a result, the value of Australian spirits exports has grown to become almost 9.5 times the value of beer exports. While the value of spirits exports remain eight times smaller than wine exports, this gap has closed significantly since 2011–12, when wine exports were more than 20 times the value of spirits.

Figure 4: Australian spirits exports ($m), 2006-07 to 2019-20



In 2019, Australian spirits exports were largely within the Asia-Pacific region, home to all of Australia's top five spirits export destinations. China, where spirits consumption per person is almost twice as high as in Australia, accounted for approximately 24% of the total value of spirits exports in 2019. Over the year, China's spirits consumption per person was estimated to be 2.63 litres per person, compared to 1.32 litres per person in Australia. While trade with China remains vulnerable to political tension, spirit exporters have thus far not experienced the tariffs imposed on Australian wine and other products. Singapore received the next highest share of Australian spirits by value, accounting for 17%, although this is likely an interim destination that is re-exported to other countries across the globe.

Diageo Australia (NSW, McMahon)

Australia's biggest spirits export is whisky, worth $165 million in 2018–19, or 46% of all spirits exports. This is a significant shift in the export profile. As recently as 2016–17, brandy and other grape-based spirits were Australia's most valuable spirits export. However, within two years, whisky exports rose 278%, to make it the leading exporter in the spirits category.

Whisky exports have risen as Australian distilleries increasingly garner global attention, encouraging new entrants to begin producing. For example, Sullivan's Cove became the first distillery outside of Scotland or Japan to win the world's best single malt whisky in 2014, 2018 and 2019. Brands like these have played a critical role in building global recognition for Australia's spirits. In 2019, approximately one third of whisky exports went to China, followed by Singapore (20%), Malaysia (14%) and New Zealand (8%).

Gin exports have also experienced a rapid increase in sales, increasing 24% on average annually in the ten years to 2018-19 – the fastest growth of all spirits categories. From a starting point of just $2 million in 2008-09, the value of gin exports rose to almost $17 million in 2018-19, with export sales continuing to increase to $18 million in 2019-20 despite the global effects of COVID-19. In 2019, half of Australia's gin exports were sent to New Zealand, with the category's next biggest destinations being Singapore (15.4%), China (9.2%) and Thailand (7.9%). This suggests that Australian gin exports could continue growing at pace, alongside booming domestic production, if attention was directed to markets outside of New Zealand.

A FUTURE MADE IN AUSTRALIA, EXPORTED TO THE WORLD

The Australian spirits industry is comprised of more than 350 distillers and manufacturers, ranging in size from craft distilleries run by passionate sole operators to global spirits manufacturers who are enthusiastic supporters of the Australian industry. Together, these operations support 52,900 direct jobs spread across Australia, with 65% of the operations located in regional areas.

We have a positive vision for what the Australian spirits industry could be, but tax remains the single biggest obstacle impeding our growth and development. Even so, ours is an industry that punches well above its weight despite this oppressive tax regime.

Australian distillers are continually recognised for the quality spirits they produce, taking home coveted awards from some of the world's most prestigious competitions. In 2021 alone, the following `distilleries won best in category/top prizes at the World Gin Awards, World Whiskies Awards, International Wine and Spirits Competition, SIPS Awards and the American Distilling Institute Awards.

Figure 5: 2021 best in category/ top prize-winning distilleries

78 Degrees (SA, Mayo)

5. VISION FOR GROWTH

Archie Rose Distillery (NSW, Sydney)

There is strong evidence that the spirits industry is on the cusp of a boom similar to that of the wine industry in the 1980's. Recognising the promise and quality of Australian wine, governments during that period provided tax breaks and financial incentives for investment. The result was exponential export growth and domestic activity, establishing Australian wine as an important and enduring contributor to our agricultural, tourism and export industries. The Government established Wine Australia to champion the industry's expansion of exports and to advocate for them on the world stage.

With similar support to that afforded to the wine industry, spirits could boom and become another significant contributor to the Australian economy. Support for the spirits sector will flow through to Australian agriculture and provide a valuable stimulus to Australian tourism and hospitality, at a time when these sectors have been heavily impacted by COVID-19.

Our vision for the Australian spirits industry benefits businesses, consumers and the Australian economy. Realising the potential of the spirits industry means:

- **Significant job creation** for more Australians, particularly in regional and rural areas,
- **Increased capital expenditure** that supports business growth, and
- **Export growth** across the industry.

5.1. Tax: the greatest hurdle impeding our sustainable growth

Australia is home to over 350 distilleries and manufacturing plants, producing over 80% of the spirits sold throughout the country.

While the domestic spirits industry has enjoyed significant growth in recent years to complement global brands manufactured in Australia, the continued growth of the industry hangs in precarious balance due to the punitive nature of our spirits tax regime.

Such an unnecessarily high rate of tax is holding the Australian spirits industry back, stifling job creation, manufacturing, tourism, agriculture and export opportunities.

Our industry enjoys a unique position where global spirits manufacturers want to invest further in Australia in a way that grows the domestic spirits industry and creates jobs. But Australia's oppressively high spirits tax – which is the highest alcohol tax in Australia and the third highest in the world – acts as a disincentive to such investment.

Similarly, successful domestic producers seeking to expand and explore the export market are stymied by taxes which thwart their ability to reinvest in their businesses to facilitate such growth.

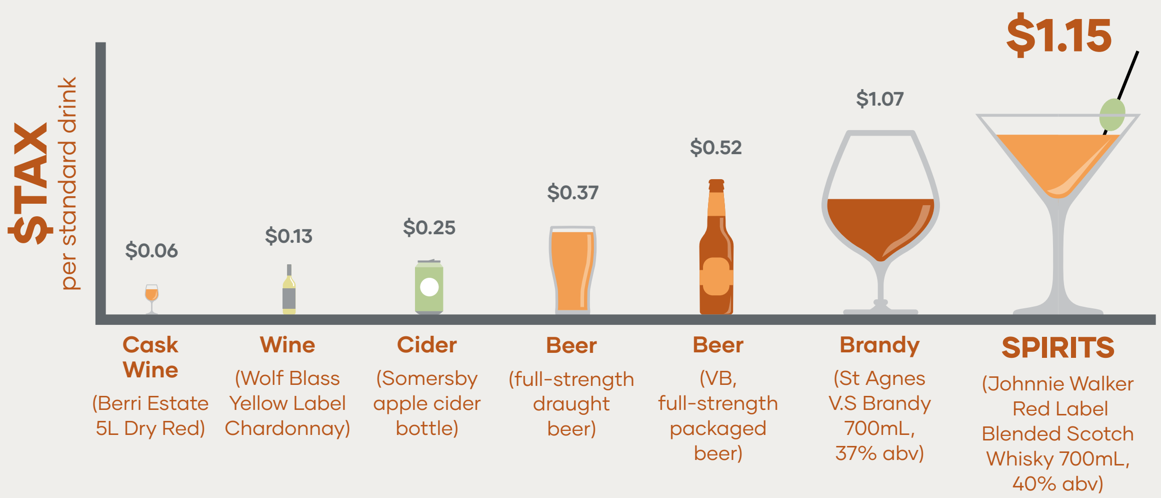
Every six months, the tax increases - and so does the inequity.

The most recent spirits tax increase of 2.1% (effective from 1 February 2022) is the fourth since the start of the pandemic, levied against an industry facing inflationary pressure, extensive supply chain issues and depressed consumer confidence.

While small distillers benefited from an increase to craft distiller remission scheme limit at the last Federal Budget – worth $20 million to the spirits industry per year – the Government will claw back more than five times that amount (approx. $100 million this financial year) through tax increases announced in August 2021 and February 2022.

With no end in sight to these automatic six-monthly tax increases, the sustainable growth of the Australian spirits industry is increasingly under threat. As the tax gap between spirits and other categories continues to grow (because out tax increases from a significantly higher base) so too does our competitive disadvantage. While we're staring down the barrel of paying $100 in excise per litre of alcohol, our colleagues in beer pay just half that, hovering around the $50 mark. When translated to the tax paid per standard drink, the disparity between alcohol categories is clear. There is no public policy rationale for this discrimination.

Figure 6: Comparison of tax per standard drink as at 1 February 2022



CASE STUDY

A ticking time bomb: Excise indexation in an inflationary period

The announcement of a further 2.1% increase in spirits excise from 1 February 2022 was met with disappointment and frustration across the Australian spirits industry.

As manufacturers battle the perfect storm of staff shortages, critically low supplies of palettes to freight products across the country, and depressed consumer confidence affecting sales in hospitality venues, the Federal Government clocked its 19th tax increase in a decade.

Paul Messenger, Founder and CEO of Husk Distillers, reflects on what this excise increase means for his business and the broader consequences for the industry:

"In February 2022, the excise on spirits increased by 2.1% to $90.78 per litre of alcohol – up from $72.46 when I started Husk Distillers in February 2012.

That is a massive and totally unjustifiable 25% tax increase in just 10 short years.

In 2012, excise represented 39% of the wholesale price of our product. From 1 February, that will rise to 46% of the wholesale price. These tax hikes may pale into insignificance should inflation start to rise further over the years ahead.

The burgeoning craft spirits industry has never experienced a period of high inflation with the noose of indexation around its neck.

The contribution from alcohol to the latest CPI is well below 1% because in a highly competitive market, most alcohol producers will struggle to raise shelf prices in line with inflationary pressure, choosing instead to absorb much of these costs. This conundrum places a question mark over the future of our young, promising industry in any period of high inflation while the government chooses to persist with the current policy of indexation.

Any further rise in CPI will have far reaching consequences for the entire Australian spirits industry."

> "Any further rise in CPI will have far reaching consequences for the entire Australian spirits industry. Indexation is a burden on our industry that must be urgently addressed."
>
> Paul Messenger, Founder & CEO
>
> Husk Distillers (NSW, Richmond)

Husk Distillers (NSW, Richmond)

A tax that forces foreign investors to look elsewhere

With the third highest spirits tax in the world, after Iceland and Norway, Australia is not an attractive destination for foreign direct investment – and it should be.

Global drinks companies are dissuaded to invest here due to high domestic taxes, relative to comparable countries.

Figure 7: Australia's spirits excise per litre of alcohol vs. comparable markets (in AUD) from 1 February 2022.

Foreign investment builds a stronger domestic industry. It creates jobs, enhances skills capabilities and increases manufacturing output.

Australia already boasts a spirits industry that makes 80% of the product sold throughout the country in Australian distilleries and manufacturing plants. With greater foreign direct investment, we can recreate the success of the Australian wine industry and take Australian-made spirits to the rest of the world.

However, the level of investment required to turbocharge the growth of spirits exports simply cannot be achieved without some level of Government intervention. Just as visionary governments of the 1980s and 1990s provided policy settings to enable the growth of Australian wine, such vision is again required to unleash the potential of the Australian spirits industry.

Implementing our recommendation to align the spirits tax rate with the brandy rate and freeze CPI increases for three years will provide global and domestic spirits manufacturers with the confidence to invest: in creating skilled Australian jobs, enhancing domestic manufacturing outputs and building export capacity.

Stimulating the Australian spirits industry will also support the growth of industries throughout the supply chain including agriculture, manufacturing, tourism and hospitality.

5.2. Export growth

Australia has the capacity to attain a larger share of global spirits exports, increasing the value of spirits to the Australian economy. Australian spirits exports increased regularly between 2007–08 and 2017–18, rising 11.0% in value each year on average. In volume terms, spirits exports rose 7.4% per annum. This is compared to the global growth in spirits exports of 3.3% per annum over the same period.

In 2018–19, just prior to the disruption caused by the COVID-19 pandemic, the value of Australian spirits exports jumped 60.6% to $360 million. Despite this strong year-on-year growth, the total value of Australian spirits exports is still less than 1% of the global figure.

Based on historic growth data and excluding the impact of COVID-19, Australia's share of world exports could be 1.37% by 2030-31. However, should the industry target a 2% share of global trade by 2030–31, it would need an annual growth in export rate of 15.8%, which is 1.4 times faster than the historical average. Under this scenario, Australian spirits exports would reach approximately $1.15 billion by the end of the period. There are a number of factors that could enable this target to be achieved, including increased demand of premium Australian spirits in key Asia Pacific export markets, further changes to policy and taxation treatment of spirit excise to free up cash flow and investment in export capabilities by Australian businesses coming online.

Figure 8: Global spirits exports per capita (AUD)

Source: Statista 2018, Leading exporters of spirits worldwide in 2018 by country, https://statista.com/statistics/1039949/global-spirits-export-leader-by-country/

The power of investment

The Australian spirits industry is ripe for investment. We boast award-winning distilleries in every State and Territory, with massive export potential, and we already have homegrown examples of how investment is creating more jobs and unleashing potential.

We know from our experience in international markets that fair and sustainable tax reform can multiply the success borne of investment throughout the country.

The only thing that is holding us back is Australia's punitively high tax burden.

Starward (VIC, Macnamara)

CASE STUDY

How foreign investment turbocharged production capacity at Starward.

In 2022, Starward's single malt whisky capacity will be more than double that of the projected increase in production for the entire Tasmanian industry.

"Without the long-term alignment, commitment and investment from Diageo, Starward's business would be much, much smaller and certainly less successful, perhaps not even exist at all. We are increasingly in a strong position, set up for a long and successful expansion and industry creation" – Simon Marton, CEO Starward.

Starward started life as a start-up in 2007 by Melbourne entrepreneur, David Vitale. Since 2015, Diageo has consistently invested in the business based on the shared belief that there is an opportunity to create an exciting international whisky brand of scale from Australia.

The whisky business model is long-term, with high barriers to entry due to the investment required ahead of sales to create inventory. Whisky made in Australia must be aged for a minimum of two years before it can be bottled and sold.

Since Diageo's investment in Starward, infrastructure and capability at the distillery has been scaled to provide the capacity to produce up to 1.3 million litres of single malt whisky per year.

Compare that to the Tasmanian whisky industry, which currently has no foreign investment in their spirits production. They are the most established whisky state, with over 60 distilleries, and more than 20 of these located in the seat of Lyons. The Tasmanian Whisky and Spirits Association estimates that the entire Tasmanian whisky industry would increase single malt whisky production by 400,000 litres in 2022 – Starward has capacity to make more than double that over the same period.

In 2020-21, Starward increased revenue by 94% compared to the previous financial year, with 30% of this growth attributable to sales in key export markets like Germany, France, Singapore and New Zealand. By 2025, it is anticipated 65% of Starward's revenue will come from export markets, creating a truly international business.

Foreign investment has the power to elevate domestic spirits production to take quality Australian-made products to the world. With more sustainable spirits tax settings in place, Australia will be made a more attractive destination for such investment and the success of Starward could be replicated many times over.

CASE STUDY

Mighty plans to take Kangaroo Island Spirits to the world

Mighty Craft, one of Australia's fastest growing premium craft beverage companies listed on the ASX, enables craft companies to scale production, distribution, sales and marketing. Scaling a spirits brand domestically and on an international scale is difficult. Mighty Craft has been helping companies overcome this challenge by offering access to growth capital, expert industry leadership and unrivalled operational expertise.

With Mighty Craft's support, Kangaroo Island Spirits has developed a new distillery facility, featuring a dedicated visitor experience space and completely revamped cellar door, to attract tourists and showcase their award-winning products. There are imminent plans afoot to install a new whisky still and launch a world class program through a new training academy on the island.

This growth has resulted in jobs for an additional eight people (+50% increase) covering production, sales and marketing. Throughout the build of the new distillery facility, all trades engaged on the project were sourced from Kangaroo Island, offering a significant boost to the local economy. This included construction, electricians, plumbers, material suppliers, earthworks and landscaping - three of these trades took on apprentices to assist with the build.

Kangaroo Island Spirits also works collaboratively with over 50 businesses located on the island, through promotions and featuring products in their merchandise offerings, and through product and training.

Prior to investment from Mighty Craft, Kangaroo Island Spirits' output was limited to gin and vodka production, however, they now plan to

Kangaroo Island Spirits (SA, Mayo)

manufacture and mature single malt whisky over the coming years. The addition of this new product line has been made possible by the upfront capital investment and expertise from Mighty Craft.

This investment forms part of a broader Mighty Craft investment strategy across four reputable Australian spirit brands, including 78 Degrees Distillery, to achieve 1.5 million litres of whisky under maturation by 2025.

Such significant acceleration of growth will increase the capacity to export these brands to key markets such as the United States, United Kingdom, China and the European Union.

The scale and magnitude of change achieved at Kangaroo Island Spirits is one of only a small handful of examples of domestic investment in the Australian spirits industry.

With more sustainable tax settings, both domestic and foreign investment in the industry could be far greater.

CASE STUDY

How tax relief encouraged Brown-Forman to invest in Scotch whisky

Brown-Forman, the largest American-owned spirits and wine company, is always looking for opportunities to grow within its international markets. Headquartered in Louisville (Kentucky) in the United States, Brown-Forman employs more than 4,700 people globally and sells its quality spirit brands like Jack Daniel's Tennessee Whiskey, Woodford Reserve and Herradura Tequila in more than 170 countries.

Following consecutive cuts in spirits duty announced by the United Kingdom's Chancellor of the Exchequer in 2014 and 2015, Brown-Forman had the confidence to invest in the UK market, with a £285 million ($540m AUD) in the purchase of three Scotch whisky distilleries – The BenRiach, GlenDronach, and Glenglassaugh.

Since Brown-Forman's investment in 2016, the volume of scotch whisky sold and exported from the three distilleries has more than doubled. Brown-Forman has helped develop the brand offerings, including making changes to packaging, extending the core scotch whisky range, releasing new expressions and creating new whiskies (such as the Glendronach Kingsman, released in conjunction with the Kingsman film series).

In the last five years, Brown-Forman has invested approximately £10m ($19m AUD) for the development of new assets to support and improve production from these facilities and improve all three distillery visitor experiences to enhance the tourism offering. The company has plans to expand and grow these brands even further, creating new jobs in production, distribution and spirits retailing globally.

Australia is the second largest international market for Brown-Forman, with sales of over five million nine litre cases of full and premixed spirits, and 150 employees located across all Australian States and Territories. The company creates jobs throughout its supply chain and in marketing and hospitality, and in 2020, contributed more than $309m in excise paid on its products sold in Australia.

With the right business conditions and tax incentives in Australia, global companies like Brown-Forman can play a greater role in fostering and developing the Australian spirits industry, providing their craftsmanship, know-how and experience to stimulate economic development, innovation and competition.

A SUSTAINABLE **RECOVERY**

The hospitality industry has faced two of its toughest years in recent memory. Successive waves of COVID lockdowns, depressed consumer confidence, staff shortages and stagnant tourism has meant many operators have struggled to survive the pandemic.

The sector has also faced supply chain issues and increases to their cost of goods, driven in part through twice-yearly increases to spirits and beer excise.

Recognising the strain of the pandemic on the hospitality sector, Spirits & Cocktails Australia Members provided support through a range of initiatives:

Raising The Bar – Diageo Australia

Diageo provided $15 million in support through Raising The Bar to help two thousand pubs, clubs and bars to purchase personal protective equipment such as masks, hand sanitiser and digital thermometers. The program also supported the purchase of outdoor furniture including tables, stools, umbrellas, heaters and air coolers to assist venues to transition to 'alfresco dining' arrangements. Adopting technology platforms like Me&U to provide contactless menus to customers was also supported through the initiative.

Diageo also partnered with state hospitality associations such as the Queensland Hotels Association to provide training to fill skills shortages resulting from a lack of migration.

Get Back To Your Local – Diageo Australia

In response to depressed consumer confidence to return to venues following protracted lockdowns, Diageo recently launched a $5 million national confidence building campaign for the hospitality industry called 'Don't Forget Your Local'.

The campaign includes TV commercials, outdoor advertising and digital advertising and is continuing with a focus across heavily impacted areas in Queensland, New South Wales and Victoria, as well as extending in to South Australia and Tasmania in coming months.

YCK Laneways – Bacardi-Martini Australia

While central business districts throughout Australia struggled to return to regular trading as wary workers opted to work from home between lockdowns, the NSW Independent Bars Association launched the YCK Laneways Precinct. The Precinct, capturing small bars and venues along York, Clarence and Kent Streets, is Sydney's newest entertainment destination offering food, small bar and live music experiences in the heart of the CBD.

In 2021, Bacardi-Martini partnered with YCK Laneways as its major sponsor, to host a six-week celebration featuring cultural events, live music, activities and culinary experiences. The celebration marked a turning point for many small bars who were able to recover lost revenue from Sydney's first lockdown and accelerate their return to pre-COVID trading.

CASE STUDY

What spirits tax reform means to the hospitality sector

Australia's spirits manufacturers are part of a hospitality ecosystem which has been severely impacted by the COVID-19 pandemic. Two years since the virus reached Australian shores, familiar challenges remain – like navigating ever-changing health advice – while new challenges emerge, as staff shortages across multiple industries cause unprecedented issues throughout supply chains.

Hospitality operators face an uncertain future as they battle 'shadow lockdowns' and depressed consumer confidence amid the Omicron variant dominating Australia's peak summer trading period.

The most recent spirits tax increase of 2.1% has been described by many in the industry as "brutal" at a time when many hospitality operators are struggling to stay afloat.

During the two pandemic years of 2020 and 2021, independent pubs experienced a 35% downturn in spirits sales, while smaller venues and restaurant groups experienced declines of over 70%.

Implementing the spirits industry's proposal to freeze CPI increases for three years and align the spirits tax rate with the brandy will deliver a tangible benefit to the hospitality sector as they rebuild following the pandemic.

The table below uses actual sales data sourced from within Member businesses to illustrate the significant value spirits tax reform offers small and large hospitality groups.

	LARGE PUB GROUP	SMALL RESTAURANT GROUP
Spirits tax reform measure/s	**Benefit to group** (2021-2024)	**Benefit to group** (2021-2024)
Freeze CPI increases for 3 years	**$568,836**	**$12,279**
Align spirits tax rate with brandy rate	**$376,269**	**$8,104**
Freeze CPI + align spirits tax rate and brandy rate	**$945,105**	**$20,383**

6.2 Australia's responsible drinking habits will support COVID recovery

Drinking trends across Australia are changing dramatically, and for the better.

The most comprehensive independent data on Australian drinking trends, the National Drug Strategy Household Survey conducted by the Australian Institute of Health and Welfare, found that over the last 10–15 years there have been significant declines in people drinking at risky levels. Most Australians are drinking less frequently on a daily and weekly basis, and more are deciding not to drink at all.

60%
OF DRINKERS HAVE NO MORE THAN 2 STANDARD DRINKS IN ONE SESSION
(up from 48% in 2007)

AUSTRALIA'S PER CAPITA ALCOHOL CONSUMPTION IS ITS LOWEST IN
50
YEARS

20%
OF AUSTRALIANS ABSTAIN FROM DRINKING
With the sharpest declines among people aged 18-24

Australians are choosing to drink more premium drinks, less frequently, than drinking in greater quantities, and their choices increasingly blur the traditional categories of 'beer', 'wine' and 'spirits'.

Spirits consumers play the biggest role of any alcohol drinkers in supporting more premium, higher value revenue growth. This is consistent across consumption in venues and at home consumption, across socio-economic and age demographics, and in regional and metropolitan locations.

With Australians drinking less, but consuming more premium products, there is a strong economic policy rationale for the Government not to discourage spirits drinkers from consuming products that sustain this 'premiumisation' of Government revenue.

There has been some media speculation that in response to the COVID pandemic and long periods of lockdown, Australia's consumption of alcohol has increased. The Australian Institute of Health and Welfare (AIHW) reported in December 2021 that "to date, no clear patterns of the effects of COVID-19 restrictions on alcohol and other drug consumption have emerged, with many people reporting unchanged levels of consumption. Longitudinal data now available suggest that participants in these surveys may have initially increased or decreased consumption, but then reversed that pattern of consumption at the next data collection point."

Sources:

DrinkWise 2018, Australian Drinking Habits: 2007 vs 2017, <https://drinkwise.org.au/ourwork/australiandrinking-habits-2007-vs-2017/#>.

Australian Institute of Health and Welfare 2017, National Drug Strategy Household Survey 2016: detailed findings. Drug Statistics series no. 31/Cat. no.PHE 214, Australian Government, <https://www.aihw.gov.au/reports/illicit-use-of-drugs/ndshs-2016-keyfindings/contents/summary>.

Australian Bureau of Statistics 2018, 4364.0.55.001- National Health Survey: First Results, 2017-18 <https://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20 Subject/4364.0.55.001~201718~Media%20Release~How%20healthy%20is%20the%20typical%20Australian%3F%20(Media%20Release)~1>.

Australian Institute of Health and Welfare, 2019, <https://www.aihw.gov.au/reports/alcohol/alcohol-tobacco-other-drugs-australia/contents/impact-of-covid-19-on-alcohol-and-other-drug-use>.

The AIHW noted a spike in alcohol sales in March 2020, driven by speculation that liquor stores would shut as part of the restrictions for the first lockdown. This spike dropped in April 2020, and that subsequently there have been weeks where there was increased spending in comparison to the same week the year prior. The AIHW also noted consumption polling data which found that for most people, alcohol consumption did not change, although for a minority (around 14%), consumption increased, and for another minority (around 15%) consumption decreased. Reasons for increased consumption by some included stress and boredom during lockdowns. By the second half of 2021, sales data had returned to pre-COVID trends, and the forecast is a return to longer term consumption trends, which for total alcohol consumption have remained relatively unchanged or slightly reduced over the last ten years.

There is no evidence suggests that spirits consumption comes at a greater social cost than the consumption of beer, wine or other alcohol beverages. The breathalyser does not discriminate on the type of alcohol consumed, but instead focuses on the volume consumed; the same principle should apply to the alcohol tax system.

A POSITIVE SOLUTION TO UNLEASH **POTENTIAL**

Spirits & Cocktails Australia and the Australian Distillers Association believes that reform of Australia's complex alcohol excise and taxation structure is an important long-term goal to address the harmful consumption of alcohol, as well as optimise the investment environment for alcohol producers, both domestic and global, to create premium drinks for local consumers, as well as grow export markets.


Wildflower Gin (QLD, McPherson)

Our preferred reform option (Option 1) is to cut the spirits excise rate to the brandy excise rate and freeze the Consumer Price Indexation (CPI) increases for spirits for three years. Alternatively, the Government could consider doing either component of this option (cutting the spirits excise rate to the brandy rate or freezing CPI increases for three years). PwC's analysis of all options shows that each will deliver a net increase to Federal Government revenue, with a small decrease in the total consumption of alcohol by Australian consumers.

Policy summary		Increased revenue in financial year post-implementation (1 July '22 – 30 June '23)	Impact over forward estimates (2022 – 2026)	Pure alcohol consumption change (2022 – 2026)
1.	**Align the spirits excise rate with the brandy rate and freeze spirits and brandy CPI increases for three years**	**+ $143 million**	**+ $766 million**	**- 0.22%**
2.	Align the spirits excise rate with the brandy excise rate	+ $121 million	+ $530 million	- 0.19%
3.	Freeze spirits and brandy CPI increases for three years	+ $36 million	+ $408 million	- 0.16%

In all three policy scenarios, PwC's modelling shows that decreasing the spirits excise increases Government revenue as it accelerates an established market trend that sees consumers shift from lower taxed beer and wine to higher taxed spirits and RTDs. Our preferred option provides the greatest gain to government revenue, both in the first year and over the forward estimates.

Importantly, all three options do not seek to increase tax on any other alcohol category and none result in any significant change to overall alcohol consumption (in all cases, overall alcohol consumption decreases by less than one per cent). These decreases have been impacted by a temporary spike in alcohol sales that occurred during the first COVID lockdown, although sales have now returned to pre-COVID trends). As the policy options are primarily designed to benefit consumers, the model assumes that the full benefit of the excise increase is passed through to consumers, with producer and retailer margins remaining constant.

For more detailed information on the assumptions, data and elasticities used by PwC in formulating revenue gain estimates, please refer to the PwC analysis (Appendix A).

Parliamentarians, Government inquiries and Australian voters support spirits tax reform to unleash our potential

There strong support across the Parliament for the policy options proposed, as highlighted by the following member statements made in private Members business in the House of Representatives on 22 March, 2021.

The ability of this flourishing industry [craft distillers] to recover from COVID-19 is being hamstrung. Its hopes of expanding overseas are being dashed, because Australia has the third highest spirits excise in the world... Surely with the extra funds freed up from the excise charge, boutique distillers would be able to employ more staff, invest in better infrastructure and expand their markets.

Andrew Wilkie MP, Member for Clark (Tasmania)

Tax is holding the sector back from growing by making it harder for people to invest, to start new and innovative products and to be able to go on and sell them to the world. If we want to have a successful distilled spirits sector, with the potential to grow—and we have a distilled spirits sector already, but it is being held back—if we remove some of the taxes and make them a bit more equal to other tax arrangements, it would allow the sector to flourish and thrive.

Tim Wilson MP, Member for Goldstein (Victoria)

It's been put to me that spirits in Australia are now about where wine used to be. When wine taxation was reformed, it led to an explosion in the industry. It just blossomed. That's what we want to see happen with spirits... Despite the incredibly onerous taxation on them and the excise requirements, they have done pretty well at growing the industry, but they won't reach their potential unless there's further reform.

Brian Mitchell MP, Member for Lyons (Tasmania)

I believe an opportunity exists to look at reducing the current rate of the spirits excise, even by a moderate amount, which would provide our distillers with the confidence to reinvest in their businesses and create further jobs in the hospitality and regional tourism industries, two industries that were hardest hit by the pandemic.

Bridget Archer MP, Member for Bass (Tasmania)

The current situation is an opportunity lost. It is a revenue loss for government, an employment loss and an export opportunity loss. Demand for spirits is growing globally, and markets within our region are expected to grow substantially... The potential for the Australian distilled spirits sector is enormous... [My local distilleries] are so passionate about the craft that they create, and it's so incredibly disappointing that we keep taxing the lifeblood out of them.

Rebekha Sharkie MP, Member for Mayo (South Australia)

Our spirits manufacturers are asking for a level playing field... We need to keep an open mind to make the necessary changes to ensure future growth in this industry and to make sure it remains competitively internationally. We talk about bringing back manufacturing to Australia. The distilling industry is manufacturing, and we should do what we can to support it. It's exactly what Australians want: quality jobs, value added, export-ready. It's not just exporting in terms of exporting our products overseas; it's also a huge tourism industry in my home state of Western Australia. I know my community supports these local distillers. I've been bombarded by emails, as many have. You don't get many emails about complex tax policy, but I have received quite a few about this one.

Patrick Gorman MP, Member for Perth (Western Australia)

I have been advocating for the harmonisation of our complex alcohol tax laws through the establishment of the Parliamentary Friends of Australian Spirits. This is not about cheaper alcohol. This is about fairness in the industry and enabling the industry to reinvest in jobs, innovation and their communities.

Senator Perin Davey (NSW) via Facebook.

Many Government inquiries have recommended reform

Multiple inquiries, including the 2009 Australia's Future Tax System review (the Henry Tax Review) have been critical of inconsistencies in Australia's alcohol tax system. All have pressed for reform.

Rethink: Tax Discussion Paper (2015)

The taxation of alcohol is complex, with rates varying considerably for different types of alcoholic beverages. This reflects policy changes over time to meet multiple objectives that include raising revenue, reducing the social costs of excessive alcohol consumption, and supporting wine producers and independent beer producers.

Senate Red Tape Inquiry (2017)

The committee recommends that the Australian Government progress the reform of alcohol taxation, including the introduction of a single volumetric tax rate across all alcohol products, to be phased in to allow reasonable adjustment.

Shifting The Dial: 5-Year Productivity Review (2017)

The Australian Government should move towards an alcohol tax system that removes the current concessional treatment of high-alcohol, low-value products, primarily cheap cask and fortified wines. Ideally, this would be achieved through a uniform volumetric tax rate for alcoholic beverages, calibrated to reflect the health impacts of alcohol consumption.

59% of Australian voters support our spirits tax reform proposal

Independent research conducted by Insightfully in 2021 found that 62% of Australian voters are concerned the spirits tax is unfair on Australian business and agriculture. Significantly, 59% of voters support our spirits tax reform proposal to unleash the potential of the Australian spirits industry.

EARP Distillery (NSW, Newcastle)


www.pwc.com.au
Spirits excise option modelling
Update report
November 2021

Disclaimer

This report is not intended to be read or used by anyone other than Spirits and Cocktails Australia.

We prepared this report solely for Spirits and Cocktails Australia's use and benefit in accordance with and for the purpose set out in our engagement letter dated 28 October 2021. In doing so, we acted exclusively for Spirits and Cocktails Australia considered no-one else's interests.

We accept no responsibility, duty or liability:

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Overall results

These results examines the revenue to government from three options of changes to taxation of spirits, as follows:

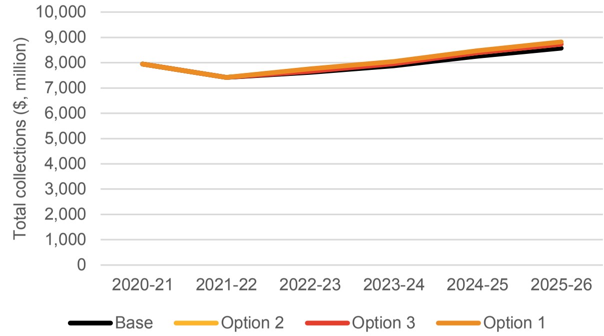
- **Option 1** - A combination of freezing Consumer Price Index (CPI) of the brandy excise and extending it to all spirits and ready-to-drink beverages (RTDs) (i.e. a combination of Options 2 and 3 below).
- **Option 2** - Applying the current brandy excise rate to all spirits and RTDs. Currently, brandy is taxed at $83.04 per litre of pure alcohol (LAL) and spirits at $88.91 per LAL. This option would, in effect, abolish the existing spirits excise category and tax all spirits and RTDs, including brandy, at the existing brandy rate.
- **Option 3** - Freezing CPI increase of brandy and spirits excise at current rates for a period of three years. Currently rates are indexed with CPI twice a year in February and August.

All changes are assumed to start at the beginning of the 2022-23 tax year. The graphs to the right show the impact of Options 1-3 on total government revenue from alcohol excises, as well as collections just from excise of spirits and RTDs (i.e. excluding wine equalisation tax (WET) and excise on beer and cider). This shows that government collections from alcohol excise changes only marginally.

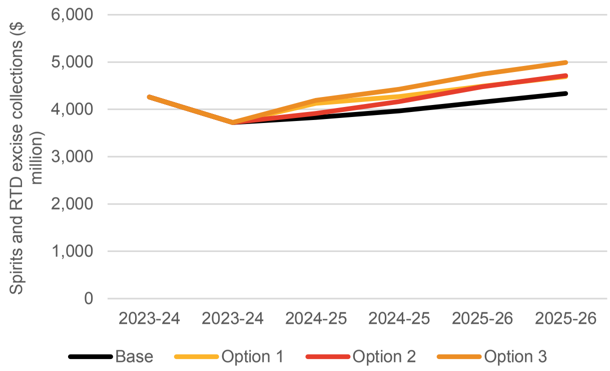
Each option is examined in detail in the following pages and key assumptions are explained in the appendices.

Throughout this report the term 'excise' is taken to mean both excise and excise equivalent customs duty as no distinction is drawn between domestically produced goods and excise equivalent goods in the analysis. Total revenue also includes changes to Goods and Services Tax (GST) collections.

Total alcohol excise revenue (2020-21 to 2025-26)



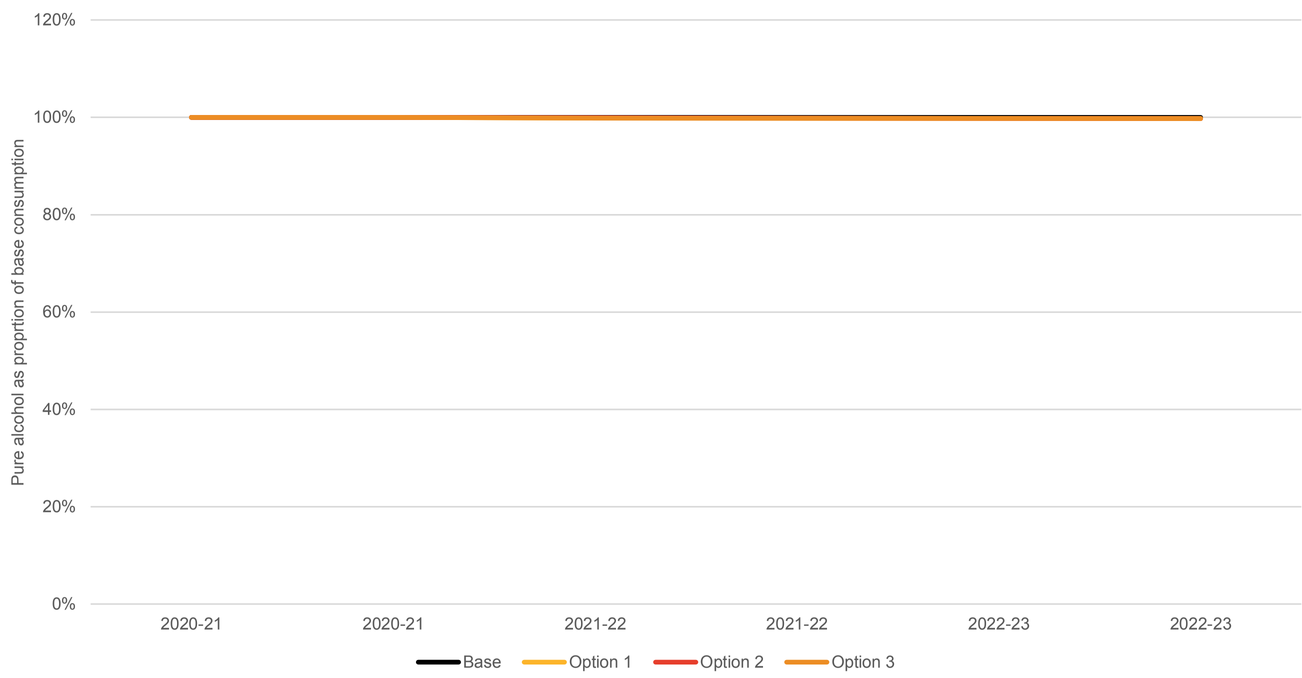
Spirits and RTD excise revenue (2020-21 to 2025-26)



Overall results

The graph below shows proportional changes in total alcohol consumption associated with the three options. This show minor decreases in the volume of pure alcohol.

Total pure alcohol consumption, as a proportion of the base forecast (2020-21 to 2025-26)



PwC

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Option 1 detailed revenue results

The table below shows detailed revenue impacts from the combined option. Because indexation is frozen at the brandy rate, rather than the existing spirits rate in Option 2, the revenue impact of this option is less than the sum of the parts (Options 2 and 3).

Total government revenue related to alcohol (2020-21 to 2025-26, $ millions)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Four year total
Option 1							
Spirits and RTDs excise	4,261	3,721	4,191	4,427	4,744	4,992	18,353
Other alcohol excise and WET	3,689	3,699	3,572	3,622	3,728	3,830	14,752
All excise and WET sub-total	*7,950*	*7,420*	*7,763*	*8,049*	*8,471*	*8,822*	*33,105*
GST on spirits and RTDs	907	921	1,049	1,097	1,148	1,178	4,472
GST on other alcohol	2,549	2,560	2,428	2,400	2,400	2,433	9,660
All GST sub-total	*3,457*	*3,481*	*3,477*	*3,497*	*3,547*	*3,611*	*14,132*
Total revenue	**11,407**	**10,901**	**11,239**	**11,546**	**12,019**	**12,433**	**47,237**
Base							
Spirits and RTDs excise	4,261	3,721	3,829	3,967	4,153	4,334	16,283
Other alcohol excise and WET	3,689	3,699	3,791	3,913	4,107	4,245	16,056
All excise and WET sub-total	*7,950*	*7,420*	*7,620*	*7,880*	*8,260*	*8,579*	*32,339*
GST on spirits and RTDs	907	921	941	959	976	993	3,868
GST on other alcohol	2549	2560	2576	2591	2642	2695	10,505
All GST sub-total	*3,457*	*3,481*	*3,516*	*3,550*	*3,618*	*3,688*	*14,373*
Total revenue	**11,407**	**10,901**	**11,136**	**11,430**	**11,878**	**12,268**	**46,712**
Difference							
Spirits and RTDs excise	0	0	362	460	590	658	2,070
Other alcohol excise and WET	0	0	-219	-291	-379	-415	-1,304
All excise and WET sub-total	*0*	*0*	*143*	*169*	*211*	*243*	*766*
GST on spirits and RTDs	0	0	108	138	172	185	604
GST on other alcohol	0	0	-148	-192	-243	-262	-845
All GST sub-total	*0*	*0*	*-40*	*-54*	*-70*	*-77*	*-241*
Total revenue	**0**	**0**	**103**	**115**	**141**	**166**	**525**
% change (excise)	0.00%	0.00%	1.87%	2.15%	2.56%	2.83%	2.37%
% change (all revenue)	0.00%	0.00%	0.93%	1.01%	1.19%	1.35%	1.12%

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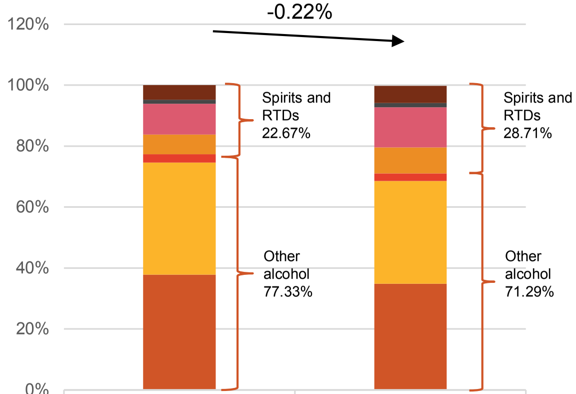
Option 1 detailed consumption results

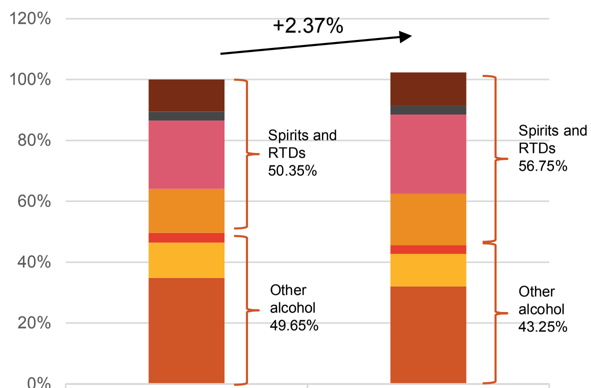
Under Option 1, pure alcohol consumption decreases by 0.22 per cent. Alcohol volumes within the spirits and RTD categories increase, but this is offset by decreases in other categories. As a result of these changes, the proportion of excise revenue generated by spirits and RTD categories increases from 50.35 per cent to 56.75 per cent (as a percentage of excise revenue in the base case).

Pure alcohol consumption by category, proportion of base total (sum of four years)



	Base	Option 1
Dark RTD	4.77%	5.59%
Light RTD	1.29%	1.41%
Dark spirits	10.11%	13.21%
Light spirits	6.50%	8.50%
Cider	2.69%	2.48%
Wine	36.78%	33.77%
Beer	37.86%	34.81%

Excise revenue by category, proportion of base total (sum of four years)



	Base	Option 1
Dark RTD	10.58%	11.04%
Light RTD	2.86%	2.79%
Dark spirits	22.43%	26.10%
Light spirits	14.47%	16.81%
Cider	3.18%	2.92%
Wine	11.61%	10.66%
Beer	34.86%	32.03%

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Option 2 detailed revenue results

The table below shows detailed revenue impacts from applying the brandy excise rate to all spirits and RTDs from 1 July 2022.

Total government revenue related to alcohol (2020-21 to 2025-26, $ millions)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Four year total
Option 2							
Spirits and RTDs excise	4,261	3,721	4,125	4,273	4,487	4,694	17,579
Other alcohol excise and WET	3,689	3,699	3,615	3,729	3,909	4,037	15,290
All excise and WET sub-total	7,950	7,420	7,741	8,002	8,396	8,731	32,869
GST on spirits and RTDs	907	921	1,028	1,048	1,068	1,089	4,233
GST on other alcohol	2,549	2,560	2,457	2,470	2,516	2,564	10,006
All GST sub-total	3,457	3,481	3,485	3,518	3,584	3,653	14,239
Total revenue	**11,407**	**10,901**	**11,226**	**11,520**	**11,980**	**12,383**	**47,108**
Base							
Spirits and RTDs excise	4,261	3,721	3,829	3,967	4,153	4,334	16,283
Other alcohol excise and WET	3,689	3,699	3,791	3,913	4,107	4,245	16,056
All excise and WET sub-total	*7,950*	*7,420*	*7,620*	*7,880*	*8,260*	*8,579*	*32,339*
GST on spirits and RTDs	907	921	941	959	976	993	3,868
GST on other alcohol	2549	2560	2576	2591	2642	2695	10,505
All GST sub-total	*3,457*	*3,481*	*3,516*	*3,550*	*3,618*	*3,688*	*14,373*
Total revenue	**11,407**	**10,901**	**11,136**	**11,430**	**11,878**	**12,268**	**46,712**
Difference							
Spirits and RTDs excise	0	0	296	306	333	360	1,296
Other alcohol excise and WET	0	0	-176	-184	-198	-208	-766
All excise and WET sub-total	0	0	121	122	136	151	530
GST on spirits and RTDs	0	0	88	89	92	96	365
GST on other alcohol	0	0	-119	-121	-126	-132	-498
All GST sub-total	0	0	-31	-33	-34	-36	-134
Total revenue	**0**	**0**	**89**	**89**	**102**	**116**	**396**
% change (excise)	0.00%	0.00%	1.58%	1.55%	1.65%	1.77%	1.64%
% change (all revenue)	0.00%	0.00%	0.80%	0.78%	0.86%	0.94%	0.85%

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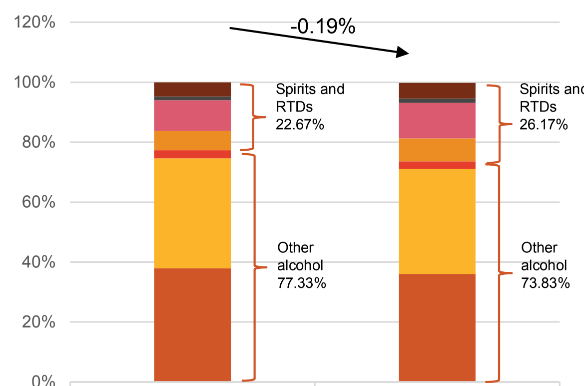
Option 2 detailed consumption results

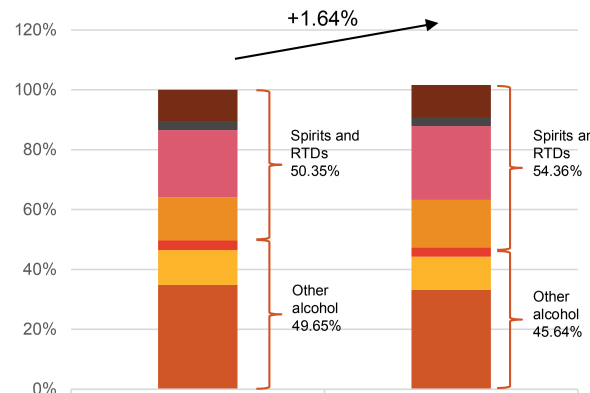
Under Option 2, pure alcohol consumption decreases by 0.19 per cent. Alcohol volumes within the spirits and RTD categories increase, but this is offset by decreases in other categories. As a result of these changes, the proportion of excise revenue generated by spirits and RTD categories increases from 50.35 per cent to 54.36 per cent (as a percentage of excise revenue in the base case).

Pure alcohol consumption by category, proportion of base total (sum of four years)



	Base	Option 2
Dark RTD	4.77%	5.26%
Light RTD	1.29%	1.37%
Dark spirits	10.11%	11.89%
Light spirits	6.50%	7.65%
Cider	2.69%	2.57%
Wine	36.78%	35.01%
Beer	37.86%	36.06%

Excise revenue by category, proportion of base total (sum of four years)



	Base	Option 2
Dark RTD	10.58%	10.91%
Light RTD	2.86%	2.83%
Dark spirits	22.43%	24.70%
Light spirits	14.47%	15.92%
Cider	3.18%	3.03%
Wine	11.61%	11.06%
Beer	34.86%	33.20%

Option 3 detailed revenue results

The table below shows detailed revenue impacts from freezing CPI on brandy, other spirits and RTDs from 1 July 2022 for three years.

Total government revenue related to alcohol (2020-21 to 2025-26, $ millions)

	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Four year total
Option 3							
Spirits and RTDs excise	4,261	3,721	3,911	4,162	4,480	4,713	17,266
Other alcohol excise and WET	3,689	3,699	3,745	3,799	3,913	4,024	15,480
All excise and WET sub-total	*7,950*	*7,420*	*7,656*	*7,961*	*8,393*	*8,737*	*32,747*
GST on spirits and RTDs	907	921	964	1,014	1,066	1,094	4,138
GST on other alcohol	2,549	2,560	2,545	2,516	2,518	2,555	10,134
All GST sub-total	*3,457*	*3,481*	*3,508*	*3,530*	*3,584*	*3,650*	*14,272*
Total revenue	**11,407**	**10,901**	**11,164**	**11,491**	**11,977**	**12,387**	**47,019**
Base							
Spirits and RTDs excise	4,261	3,721	3,829	3,967	4,153	4,334	16,283
Other alcohol excise and WET	3,689	3,699	3,791	3,913	4,107	4,245	16,056
All excise and WET sub-total	*7,950*	*7,420*	*7,620*	*7,880*	*8,260*	*8,579*	*32,339*
GST on spirits and RTDs	907	921	941	959	976	993	3,868
GST on other alcohol	2549	2560	2576	2591	2642	2695	10,505
All GST sub-total	*3,457*	*3,481*	*3,516*	*3,550*	*3,618*	*3,688*	*14,373*
Total revenue	**11,407**	**10,901**	**11,136**	**11,430**	**11,878**	**12,268**	**46,712**
Difference							
Spirits and RTDs excise	0	0	82	196	327	379	983
Other alcohol excise and WET	0	0	-46	-114	-194	-221	-576
All excise and WET sub-total	*0*	*0*	*36*	*81*	*133*	*158*	*408*
GST on spirits and RTDs	0	0	23	55	90	101	270
GST on other alcohol	0	0	-31	-75	-124	-140	-370
All GST sub-total	*0*	*0*	*-8*	*-20*	*-34*	*-39*	*-100*
Total revenue	**0**	**0**	**28**	**61**	**99**	**119**	**307**
% change (excise)	0.00%	0.00%	0.47%	1.03%	1.61%	1.84%	1.26%
% change (all revenue)	0.00%	0.00%	0.25%	0.53%	0.83%	0.97%	0.66%

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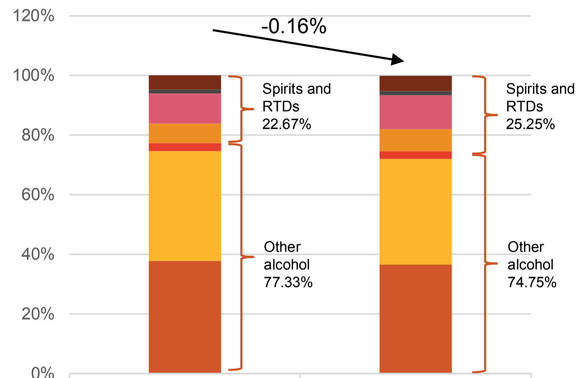
Option 3 detailed consumption results

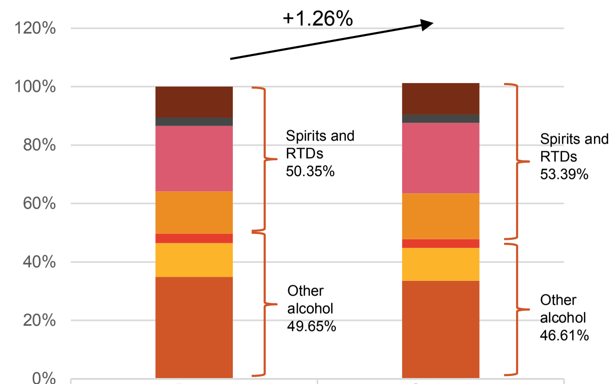
Under Option 3, pure alcohol consumption decreases by 0.16 per cent. Alcohol volumes within the spirits and RTD categories increase, but this is offset by decreases in other categories. As a result of these changes, the proportion of excise revenue generated by spirits and RTD categories increases from 50.35 per cent to 53.39 per cent (as a percentage of excise revenue in the base case).

Pure alcohol consumption by category, proportion of base total (sum of four years)



	Base	Option 2
Dark RTD	4.77%	5.12%
Light RTD	1.29%	1.34%
Dark spirits	10.11%	11.44%
Light spirits	6.50%	7.35%
Cider	2.69%	2.60%
Wine	36.78%	35.46%
Beer	37.86%	36.53%

Excise revenue by category, proportion of base total (sum of four years)



	Base	Option 2
Dark RTD	10.58%	10.82%
Light RTD	2.86%	2.84%
Dark spirits	22.43%	24.16%
Light spirits	14.47%	15.57%
Cider	3.18%	3.06%
Wine	11.61%	11.19%
Beer	34.86%	33.61%

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A

General approach

General approach

Key assumptions and sources are set out below.

- Baseline and forecast total volume consumption and retail value are taken from industry IWSR data provided by Spirits and Cocktails Australia. These forecasts were taken as given and not tested.
- Government revenue current and forecast were based on this consumption data provided, but has been adjusted to ensure that excise (and the level of pure alcohol implied by that excise) aligns with the latest federal budget forward estimates.
- However, the specifics of the headline budget figures have been disaggregated to divorce brandy from other spirits and cider from RTD and WET. It has been assumed that 18.9 per cent of cider is included in other alcohol excise with RTDs (proportion of market that is flavoured cider from IBIS World *Cider Production in Australia*).
- Implied volume of pure alcohol is also sense checked against ABS *Apparent Consumption of Alcohol*, and typical alcohol by volume (ABV) percentages of various products on a desktop exercise.
- GST cannot be adjusted to specific budget forecasts, so is based on retail values in IWSR.
- The categorisation of baseline data is important to the results, especially in terms of assigning elasticities (as more categories can mean more responsiveness across categories, rather than own price adjustments within a category). Our modelling is built on the categories shown to the right, discussed and agreed with Spirits and Cocktails Australia.
- Price points for the full bottled spirits (FBS) have been aligned to IWSR data, where our budget category means IWSR low-price, value and standard (i.e. under $47.49), our mid means ISWR premium ($47.50 to $65) and our high means all other categories. It should be noted that the vast majority of IWSR data is in their Value and Standard categories for FBS, which is why they are in different categories for our modelling.

Description	Product	Sub-product	Price point
Low strength beer	Beer	Low	All
Mid strength beer	Beer	Mid	All
Full strength beer	Beer	Full	All
Red wine	Wine	Red	All
White wine	Wine	White	All
Other wine	Wine	Other	All
Cider	Cider	All	All
Brandy	FBS	All	All
Budget light spirits	FBS	Light	Budget
Mid light spirits	FBS	Light	Mid
High light spirits	FBS	Light	High
Budget dark spirits	FBS	Dark	Budget
Mid dark spirits	FBS	Dark	Mid
High dark spirits	FBS	Dark	High
Light RTD	RTD	Light	All
Dark RTD	RTD	Dark	All

- Our model is built on half years (as indexing happens twice a year). We have assumed seasonality based on IRI data provided by Spirits and Cocktails Australia which shows that approximately 46 per cent of consumption occurs in the January to June half year.

B Elasticities

Elasticities

Elasticities are the assumption our modelling is the most sensitive to.

Our key source, discussed and agreed with Spirits and Cocktails Australia, has been Srivastava, P. et al (2014) *Econometric Modelling of Price Response by Alcohol Types to Inform Alcohol Tax Policies*, Monash University.

This has been reviewed against international examples and meta analysis and found to be the most appropriate for the Australian context. We note that the own price elasticities are higher than other analysis (i.e. Fogarty, J. (2004) *The Own-Price Elasticity of Alcohol: A Meta-Analysis,* University of Western Australia and Fogerty (2010) *The demand for Beer, Wine and Spirits),* but this can be due to the level of product detail in the Monash paper (compared to a single own price elasticity for spirits).

We have taken the Morishma elasticities of substitution from the Monash paper for cross product, and taken own price elasticity as given, with disaggregation across price points as below.

For disaggregating the Monash elasticities across price points, we have used one standard deviation of Australian estimates as shown in Fogerty (2010) *The demand for Beer, Wine and Spirits.* We have assumed lower own price elasticity for lower price points, to avoid a crowding to the bottom of the price points as price reduce, but have also allowed for a 0.3 price reaction to move up a price point (although as all are within the same taxation rate, this will not impact excise revenues).

For pass through of option price changes for the market to respond to with these elasticities, we have assumed that all costs except excise and profit are fixed, and profit margin stays consistent as a percentage on top of fixed costs and revised excise. In essence, the full excise cut is passed through to prices for consumers, with mark up proportions staying consistent.

Description	Own price	Substitution of products	Within category
Low strength beer	-0.974	1.529	
Mid strength beer	-3.374	1.666	
Full strength beer	-1.215	1.483	
Red wine		1.490	
White wine		1.546	
Other wine		1.621	
Cider		1.494	
Brandy	-1.519	1.728	
Budget light spirits	-1.51	1.577	0.3
Mid light spirits	-1.26	1.577	0.3
High light spirits	-1.01	1.577	0.3
Budget dark spirits	-1.769	1.728	0.3
Mid dark spirits	-1.519	1.728	0.3
High dark spirits	-1.269	1.728	0.3
Light RTD	-1.164	1.534	
Dark RTD	-1.831	1.277	

Note – simplified structure for options where all spirits and RTD have a price movement.

Sensitivities

Sensitivities

Alcohol excise modelling is most dependent on the choice of elasticities.

To test these sensitivities, we have modelled six sensitivity scenarios for each option, as follows:

- **A** – assume zero own price elasticity (i.e. current consumers of a product will have no volume reaction to a price change) and zero cross price elasticity (i.e. consumers will not move their expenditure between products, regardless of price movements)
- **B** – assume low own price elasticity (i.e. current consumers of a product will have a low volume reaction to a price change – we have used average elasticities for all spirits, rather than detailed product own price) and zero cross price elasticity (i.e. consumers will not move their expenditure between products, regardless of price movements)
- **C** – assume detailed own price elasticity (i.e. current consumers of a product have nuanced reactions to a price change dependent of the particular product that has a price change) and zero cross price elasticity (i.e. consumers will not move their expenditure between products, regardless of price movements)
- **D** – assume zero own price elasticity (i.e. current consumers of a product will have no volume reaction to a price change) and detailed cross price elasticity (i.e. consumers will move their expenditure between products in reaction to price change)
- **E** – assume low own price elasticity (i.e. current consumers of a product will have a low volume reaction to a price change– we have used average elasticities for all spirits, rather than detailed product own price) and detailed cross price elasticity (i.e. consumers will move their expenditure between products in reaction to price change)
- **F** – assume detailed own price elasticity (i.e. current consumers of a product have nuanced reactions to a price change dependentof the particular product that has a price change) and detailed cross price elasticity (i.e. consumers will move their expenditure between products in reaction to price change)

Our recommended set of assumptions is F, for the following reasons:

- Although A is the most conservative, is shows no consumer response which is unrealistic, given several decades of Australian literature that at a minimum shows an own price reaction for all categories of alcohol. Similarly, D is not recommend as it does not leverage the strong evidence base of own price reactions.
- B and E are also not recommended because although they do show an own price response, they have a single spirits own price reaction (which is most prevalent in the literature) which understates individual category movements that are relevant for the options presented (i.e. options modelled above separate movements for brandy, bottled spirits and RTDs, for example option 1 has no movement for brandy). This is because estimates of own price elasticity that only have a single spirits category are lower as they treat cross substitutions between products as own price, instead of the substitution reaction they actually are.

Sensitivity tests for each of the three options are presented on the follow pages. These show that without any cross product substitution, the net excise is always net negative, as without consumers moving into the now more attractively priced product, a discount applies only to current consumers, even if they increase consumption of that product. Change in pure alcohol consumption is generally higher with no cross price as there is no substitution out of non-spirits products which are both lower excise per litre alcohol and generally (though dependent on other factors) also higher all inclusive retail price higher per litre of pure alcohol. With lower own price elasticity, revenue responses are generally negative as there is not the increase in consumption to offset the discount effect.

Sensitivities

Sensitivity tests for option 1 – sums across four budget years

		No own price elasticity	Low own price elasticity (general spirits from Fogerty 2010)	Detailed own price elasticity (detailed categories from Monash)
No cross price elasticity	Spirits and RTD excise change ($ million)	A -1,799	B -1,159	C -421
	Other alcohol excise and WET change ($ million)	0	0	0
	Total taxation revenue – excise and GST ($ million)	**-2,021**	**-1,238**	**-338**
	Pure alcohol % change	0.00%	1.00%	2.15%
Monash substitution elasticities	Spirits and RTD excise change ($ million)	D 703	E 1,469	F 2,070
	Other alcohol excise and WET change ($ million)	-1,304	-1,304	-1,304
	Total taxation revenue – excise and GST ($ million)	**-1,122**	**-188**	**525**
	Pure alcohol % change	-2.36%	-1.16%	-0.22%

Sensitivity tests for option 2 – sums across four budget years

		No own price elasticity	Low own price elasticity (general spirits from Fogerty 2010)	Detailed own price elasticity (detailed categories from Monash)
No cross price elasticity	Spirits and RTD excise change ($ million)	A -1,060	B -664	C -207
	Other alcohol excise and WET change ($ million)	0	0	0
	Total taxation revenue – excise and GST ($ million)	**-1,191**	**-708**	**-153**
	Pure alcohol % change	0.00%	0.59%	1.27%
Monash substitution elasticities	Spirits and RTD excise change ($ million)	D 498	E 940	F 1,296
	Other alcohol excise and WET change ($ million)	-766	-766	-766
	Total taxation revenue – excise and GST ($ million)	**-563**	**-26**	**396**
	Pure alcohol % change	-1.38%	-0.72%	-0.19%

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Sensitivities

Sensitivity tests for option 3 – sums across four budget years

		No own price elasticity	Low own price elasticity (general spirits from Fogerty 2010)	Detailed own price elasticity (detailed categories from Monash)
No cross price elasticity	Spirits and RTD excise change ($ million)	A -790	B -490	C -145
	Other alcohol excise and WET change ($ million)	0	0	0
	Total taxation revenue – excise and GST ($ million)	**-888**	**-523**	**-105**
	Pure alcohol % change	0.00%	0.44%	0.94%
Monash substitution elasticities	Spirits and RTD excise change ($ million)	D 389	E 719	F 983
	Other alcohol excise and WET change ($ million)	-576	-576	-576
	Total taxation revenue – excise and GST ($ million)	**-407**	**-6**	**307**
	Pure alcohol % change	-1.03%	-0.55%	-0.16%

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Let's work together to unleash our potential

We welcome the opportunity to discuss our proposal to unleash the potential of the Australian spirits industry. We would be pleased to meet with you at your convenience.

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