



20 August 2020

The Hon Josh Frydenberg MP
Treasurer
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Treasurer,

IBA 2020/21 PRE-BUDGET SUBMISSION
Strategic measures to aid in the recovery of the Independent brewing industry

The Independent Brewers Association (IBA) is the peak national industry body representing Australia's 600+ independent brewers, 65% of these being small businesses based in regional and rural Australia.

Indie brewers employ over 3,000 Australians, representing 47 percent of all employment in the brewing industry in Australia with an annual wage cost of \$215. We also support 25,000 jobs in associated industries such as agriculture, logistics, manufacturing, hospitality and services. Small local breweries add value to the fabric of communities by being meeting places, hospitality venues and new and interesting visitor experiences.

COVID-19 Challenges

Prior to the global COVID-19 pandemic our industry had enjoyed growth of more than 12% on the previous year with a new brewery coming online every 6 days, to the delight of Australians across the country, our members were disrupting the traditional 20th century beer paradigm with a focus on quality and variety rather than price and quantity of consumption.

However, a recent survey confirmed 93% of independent brewers say their businesses were in a loss-making position with small regional breweries who rely heavily on tourism being the hardest hit.

The IBA and our members appreciate and fully support the actions taken by Government to aid businesses through support programs such as Jobkeeper, without which many of our members would not have survived.

However, the implications of lockdown and COVID restrictions means that many members have had to make dramatic changes to their business, with some standing down 50% or more of their workforce and many indicating they may not survive at all.

Excessive Regulation Killing Jobs

During this challenging time, we have also had to grapple with the new regulation regarding pregnancy labelling with the Ministerial Food Forum recently agreeing to overreaching and overbearing recommendations made by FSANZ. These regulations will cost independent brewers over \$113 million over 10 years with upfront costs of \$44 million being borne within the next three years.

We already pay some of the highest taxes on beer in the world, and acquiesce to the multiple layers of red tape experienced by small business so are unsure why the Government chose the most challenging time in our history to implement this new and extremely costly regulation which will absolutely result in more Australians losing their jobs when those millions could be diverted from a regulatory overreach to investing in the creation of local jobs and repairing the damage caused by COVID-19.

The Australian Beer Industry

In Australia, almost 90% of the beer market is dominated by four multinational corporations: AB InBev, Kirin, Asahi and Coca Cola Amatil with scale and resources that dwarf the Australian independent brewing industry. These multinational goliaths use market power and a nearly unlimited access to capital to create an uneven playing field that makes it difficult for independent breweries players to compete.

Yet the growth of independent beer is testament to the tenacity and innovation of these small businesses, who have grown to account for 6% of the total Australian beer market by volume in a highly competitive market. The industry has an ambitious goal to grow to 15% of the Australian market by 2025 which would see the industry over \$2.3 billion in economic output to the Australian economy in addition to paying in excess of \$300 million in excise tax.

Prior to COVID-19 our growth targets seemed achievable with our estimates indicating expansion would ensure another 4,000 jobs were created by 2025.

A recovery plan for indie beer

The industry appreciates the Government's previous increase in excise relief but it is clear that this small but rapidly growing industry needs further assistance to support recovery from the pandemic and the recession that has come about as a result. The plan outlined here will enable the industry to survive, invest in growth and create new jobs.

The independent brewing industry is still in its infancy and will struggle to achieve these outcomes without a broader recovery and industry development initiative.

In summary, to successfully navigate recovery and upward growth in such a highly capital and labour-intensive industry, independent brewers are seeking the following to be included in the 2020/21 budget:

1. **CREATE BEER AUSTRALIA:** Provision of \$300,000 in one off funding to the IBA to support the development of a national industry strategy (see detailed brief attached).
2. **FAIR EXCISE FOR SMALL BREWERS:** Increase the Small Brewers Rebate Scheme from the current cap of \$100,000 to \$350,000 per year equal to that assisting the wine industry and forgo excise debt accrued by brewers while they have been deferring payments from March 2020 and allow brewers to pay their excise net of any rebate rather than needing to pay excise and claim a refund.
3. **SUPPORT REGIONAL GROWTH:** Introduction of a Federal Fund similar to the \$50 million provided by the Federal Government (through Wine Australia) for a Regional Brewing Support Package.
4. **BOOST INVESTMENT IN MODERNISATION:** Redirect another \$50-100 million into the Modernisation Grants to support next tier of applicants who missed out in the recent round. This would act as an economic stimulus for the economy as many of the projects support the build or installation of new infrastructure.
5. **CREATE A STABLE ENVIRONMENT:** Defer any regulatory changes that will further impact the industry for the next two years.

These items are elaborated on further below:

1) CREATE BEER AUSTRALIA

A one of funding allocation of \$200,000 to the IBA to develop *Beer Australia*, the national blueprint that will pave the way for a strong and strategically justified future. Our vision is that independent beer becomes 15% of the Australian beer market by 2025. To achieve this aim, the industry will need to:

- a. Increase production by 2.5 x from 103 million litres in 2018 to 260 million litres
- b. Create over 3,000 new jobs including 1,700 jobs for skilled brewery operations
- c. Grow service industries by a further 25,000 jobs in agriculture, logistics, manufacturing, hospitality, and services
- d. Invest a minimum of \$150 million on plant and equipment
- e. Develop export capability to take advantage of key export markets

We see this being achieved by the creation of a long-term national blueprint for the sector that is developed and implemented by the industry in partnership with the Federal Government. This ten-year strategy supporting sustainable growth in the

industry and would inform both public and private sector investment to enable this growth.

The blueprint would address: 1) Industry Structure and Economic Contribution, 2) Economic contribution, 3) the Australian Domestic Market for Australian Independent Beer, 4) Tourism and the 5) International Market for Australian Independent Beer similar to that of the Wine Australia Strategy.

We believe the greatest potential return on investment lies in:

Export: Australia produces world class beer and our success in international beer competitions confirms this. However, with the exception of a few larger breweries, little of our national craft beer production is currently exported. The independent brewing industry has a massive opportunity to replicate the success that the Australian wine industry has experienced in Asia.

Asian markets on our doorstep are currently importing over \$1bn AUD in value of beer and the craft beer segment was growing in double digits. However, small independent brewers are hampered by a lack of resources and knowledge on how to facilitate logistics and establish distribution chains in Asia. There is a role for the Government to help kickstart beer exports through helping to establish the brand of “Australian Independent Beer” and to help independent producers enter key Asian beer markets such as China, Taiwan, Korea and Japan. The National Industry Strategy proposed would be the first step towards identifying the key steps required to achieve this export potential.

Tourism & Regional Development: Independent brewers now offer an inbound tourism opportunity similar to winemakers. Two thirds of independent brewers are in regional and rural Australia, while two thirds also offer taproom premises that are open to the public. Our members are heralding a cultural shift to a new style of community hub, favoured by locals and visitors alike. The establishment of regional “Ale Trails” and boosting of promotion to inbound tourism would further bolster these regional and rural economies through visitation. The national Strategy proposed would identify key opportunities to further boost tourism to regional brewery centres which would create further opportunities for new businesses to be established in these regional and rural areas.

Manufacturing, Agriculture & Trade: As with Australian winemakers, the impact of independent brewers on local communities is significant in terms of employment and support for agriculture and production of the raw ingredients required to make beer. It is also important to note that independent breweries have a focus on sourcing unique raw materials to produce innovative beers which is leading to the development of boutique raw material suppliers, particularly in the grain and hop industry. The requirement for independent breweries to source locally grown raw materials is set to explode over the next five to ten years which should encourage further development of agricultural pursuits if given the strategic and policy guidance and support needed.

2) FAIR EXCISE FOR SMALL BREWERS

In May 2018 the then Treasurer, The Hon Scott Morrison announced an increase to the excise rebate to \$100,000 saying the Federal government "will sweeten the deal for craft beer connoisseurs in next week's federal budget by cutting an "outdated and ridiculous" tax rate applied to kegs.

While we appreciate the recognition that the taxes we pay, being the fourth highest in the world, are outdated, the support for our industry seemed to stop there - while the wine industry still enjoys rebates on their WET of up to \$500,000.

How is this equitable when there is no other support provided to an industry that can rightly claim, is Australia's national drink?

Small Independent Brewers face a fundamental competitive disadvantage by the very nature of their businesses being highly labour intensive as compared to the large multinational brewers who are highly automated at producing giga litres of beer each year – and evolving to a model where they can further reduce staff.

Independent brewing is both a highly capital and labour-intensive industry. As a rule of thumb, every 1,000,000 litres of beer produced requires \$1,000,000 in capital investment. Maintaining a steep growth trajectory will require significant capital investment from relatively small businesses and will generate many new jobs within the industry.

By 2025, it is estimated our industry will need an additional \$150m of capital investment in a tight capital market which is unfriendly to small business. On the other hand, multinational brewers:

- Use nearly unlimited capital resources to block access for independent brewers by buying up tap-points within pubs and hotels.
- Have staggering economy-of-scale compared to small brewers which results in a massive disparity in raw material and production costs.
- Look to be consolidating further as evidenced by the recent approval by the ACCC to allow Asahi to acquire CUB.
- Pay little or no company tax in Australia, being able to siphon profits offshore to their multinational owners.

Independent brewers, who are all small Australian businesses, compete on an uneven playing field and are slowly changing the beer culture in Australia away from the price and volume driven economics of the big brewers. Instead, independent beer is focused on educating a new consumer who is focused on supporting local businesses who are artisans, producing flavoursome and innovative beers.

In our last two budget submissions the IBA has asked the Federal Government to increase the Small Brewers Rebate Scheme from the current cap of \$100,000 to \$350,000 per year based on a well-supported financial rationale of providing for new growth and employment opportunities. We only ask for the benefits currently enjoyed by the wine industry and nothing more.

In 2017 the IBA undertook economic modelling to illustrate the positive outcome that increasing the rebate would achieve. That analysis demonstrated that increasing the rebate now would in turn yield a return of over \$12 million per annum in tax revenue - ongoing. This would clearly be a win-win situation, as the Federal Government generates additional tax revenue from a growing industry sector and the businesses that are recovering from bushfires and COVID-19 have an opportunity to re-employ staff, invest in their business and continue to provide a social hub for communities and valuable visitor experiences from a tourism perspective.

RECOMMENDATIONS:

- a. Forgoing excise debt accrued by brewers while they have been deferring payments from March 2020
- b. Increase the small brewer's and distiller's rebate from \$100,000 to \$350,000 on a two-year trial basis applied to this current financial year
- c. Increase the rate from the current level of 60% to 100% of excise payable up to the \$350,000 cap
- d. Allow brewers and distillers to pay their excise net of any rebate rather than needing to pay excise and claim a refund

We believe this achieves several positive outcomes:

- e. This is a whole-of-industry solution as the rebate applies to all brewers. Note that small winemakers already have a rebate built into the WET system of \$350,000 annually so this would bring small brewers and distillers into line with the relief currently provided to small winemakers.
- f. The monthly nature of excise payments supports both survival and recovery with an initial lump sum rebate on excise paid in 2020 and a monthly rebate over the course of the 2021 financial year, therefore supporting the business over an extended period.
- g. The support scales with the size of business in a fair manner based on the amount of excise paid up to the \$350,000 cap.
- h. Putting the increased rebate in place for a two-year trial period allows Government to evaluate the efficacy of the measure during a time when support is most required.

With this support we will confidentiality be able to invest in:

- Jobs, training and development
- Increased production
- Capital investment and infrastructure

- Capitalising on export opportunities

3) SUPPORT REGIONAL GROWTH

We are asking for the Introduction of a Regional Brewers Support Package funding program similar to the \$50 million offered by the Federal Government (through Wine Australia). Noting that this fund is also open to 'craft cider' but not breweries. The fund could be targetted at:

- a. Development of a brand proposition and subsequent cooperative marketing campaigns to leverage potential growth in this sector.
- b. Support of investment strategies and/or feasibility studies that provide a positive economic outcome in regional Australia.
- c. Creation of bespoke events and activities that support visitation and economic benefit to regional areas.
- d. Development of business plans to investigate export opportunities.

4) BOOST INVESTMENT IN MODERNISATION

We recommend the Federal Government redirect another \$50-100 million into the Modernisation Grants to support next tier of applicants who missed out in the recent round. This would act as an economic stimulus for the economy as many of the projects support the build or installation of new infrastructure.

5) CREATE A STABLE BUSINESS ENVIRONMENT

We would also request the Federal Government defer any regulatory changes that will further impact the industry for the next two years. As an example, ASIC stated it would temporarily change its regulatory work and priorities to allow it and regulated entities to focus on the impact of COVID-19. This will include the deferral of some activities and redeployment of staff to address issues of immediate concern, including maintaining the integrity of markets and protecting vulnerable consumers.

While we understand that many industries in our country have been heavily impacted, we also acknowledge that many have also received dedicated support packages. Our industry is not currently recognised by dedicated policy nor through funding programs and strategies supporting the agribusiness, manufacturing or tourism sectors. As a result of this most challenging time in our history we are seeking urgent assistance from the Federal Government so that we can realise our full potential and ultimately deliver an improved and ongoing economic contribution to the Australian economy.

A FAIR GO FOR INDIE BEER

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As a result of this most challenging time in our history we are seeking urgent assistance from the Federal Government so that we can realise our full potential and ultimately deliver an improved and ongoing economic contribution to the Australian economy.

If you would like to discuss any aspect of this pre budget submission in more detail, please do not hesitate to contact me, I am available at any time on 0416 101 265.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Peter Philip".

Peter Philip
CHAIRMAN