Submission to the House Standing Committee on Industry, Science and Resources Inquiry on Food and Beverage Manufacturing in Australia

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1. ABOUT SPIRITS & COCKTAILS AUSTRALIA

Spirits & Cocktails Australia (SCA) represents global and local spirits producers involved in the manufacture, marketing and sale of spirits throughout Australia. Our supply chain showcases the best of Australian industries, from farming and harvesting, through to logistics, tourism and world class hospitality.

Our industry contributes $15.5 billion in added value to the Australian economy, supporting 5,700 spirits manufacturing jobs and a further 45,400 jobs in spirits wholesale, retail and hospitality. An additional 48,700 jobs are supported throughout our supply chain (Deloitte, 2024).

SCA members share a commitment to promoting a safe and vibrant spirits sector, which reflects Australia's mature drinking culture and creates opportunities for economic development, through the sustainable development of a distinctly Australian manufacturing industry.

SCA is a founding contributor of DrinkWise Australia, an independent, not-for-profit organisation focused on bringing about a healthier and safer drinking culture in Australia. Through its membership, it supports:

- Promoting a generational change in the way Australians consume alcohol;
- Tackling underage drinking by educating young people about the impact that alcohol has on the development of the adolescent brain; and
- Increasing awareness of the responsible service of alcohol, through moderation campaigns and educational tools to help enhance understanding of a standard drink, that alcohol is alcohol and the impact that harmful drinking can have on the human body.

SCA jointly funds the ABAC Responsible Alcohol Marketing Scheme, together with Australian Grape & Wine and the Brewers Association of Australia, along with direct company signatories to the code and users of the ABAC pre-vetting service. The ABAC Scheme continues to evolve to meet community expectations. A revised ABAC Responsible Alcohol Marketing Code was released in April 2023 following extensive consultation and review.

Spirits & Cocktails Australia Members:

ARCHIE ROSE DISTILLING CO.
Australian Distillers
Beam SUNTORY
BUNDABERG RUM
BROWN-FORMAN
DIAGEO
LARK MADE OF TASMANIA
Moët Hennessy AUSTRALIA
Pernod Ricard Australia
SPIRITS PLATFORM
TOP SHELF INTERNATIONAL
WILLIAM GRANT & SONS

2. EXECUTIVE SUMMARY

Spirits manufacturing in Australia accounts for $15.5 billion in added value to the Australian economy and supports almost 100,000 direct and indirect jobs throughout the industry's total supply chain.

The industry comprises 700 distillers and manufacturers, located in every state and territory, with 50 per cent of these operations in regional areas.

These businesses range in size from small craft distilleries, with 88 per cent employing fewer than 20 employees, to global spirits companies with significant local manufacturing operations.

Over 80 per cent of the spirits consumed in Australia are manufactured by skilled professionals in manufacturing plants and distilleries across the country. SCA members include global and Australian distillers who represent over 90 per cent of Australian spirit sales and exports.

The Australian spirits industry has seen huge growth over the past decade, but its future prosperity and expansion is curtailed by inefficient regulation, a lack of investment and an uncompetitive excise framework.

If these challenges were addressed by the Federal Government, the Australian spirits industry could be one of the great economic success stories of the future, creating high-quality, highly skilled jobs, great investment opportunities and boosting Australia's export capacity. The Government could play a pivotal role in catalysing this industry to grow, which would also meet many of its own priorities – such as growing manufacturing and regional jobs.

The Federal Government's long-term support for the Australian wine industry provides the proven template for facilitating the growth of the spirits industry and shows how the Government can work with the industry to attract investment, build industry capability, streamline regulation and provide access to markets.

However, failure to act could jeopardise one of the country's fastest growing sectors.

As the Prime Minister himself has said, *"I'm proud of the work [spirits] companies are doing. This is what a future made in Australia looks like."*

In this submission we outline key reforms to enhance the spirits industry's contribution to food and beverage manufacturing in Australia by:

- Creating the conditions to attract greater foreign direct investment and other capital investment to enable the spirits industry to grow capacity, capability, tourism and boost the ability to export high quality spirits from Australia to international markets.
- Initiating an urgent review of Australia's excise settings to enable the industry to be more internationally competitive.
- Simplifying the cost and ease of doing business by rectifying distortions in regulatory settings that penalise the development of new and innovative, premium products.
- Creating a 'Spirits Australia' organisation to support expanding innovation and value-adding in spirits manufacturing.
- Building upon the great gains made by the spirits sector by developing an industry roadmap to support the sustainable growth and development of the industry and its research capabilities; and
- Enhancing pioneering sustainability practices within the spirits industry by harmonising state-based Container Deposit Schemes to ensure common national requirements

3. INTRODUCTION

Spirits & Cocktails Australia (SCA) welcomes the opportunity to make a submission to the House Standing Committee on Industry Science and Resources inquiry into *Food and Beverage Manufacturing in Australia.*

The spirits industry in Australia is uniquely placed to innovate and add value to Australian beverage manufacturing through creating high quality spirits that showcase the distinct flavours of Australia.

Today, there are more than 700 distilleries and manufacturing plants throughout Australia. We are building a *Future Made in Australia*, particularly in regional areas.

However, the industry is still developing. It is primarily made up of small and emerging businesses. Constraints prevent these businesses from achieving scale. Almost 90 per cent of distillers have fewer than 20 employees and 57 per cent are less than five years old.

Global players are disincentivised to invest more in Australia. While some have made significant investments over decades, much more could be attracted to help create the Australian spirits category on the world stage.

Exports for the spirits industry remain small when compared to the wine industry, as well as to its international peers. Australia exported $210 million in spirits in 2022 compared to $2.1 billion for wine. Australia's spirits exports ranked 29th in the world by trade value while our wine exports rank 6th.

Over 366 million litres of spirits are manufactured in Australia each year, using local and imported ingredients. In fact, 80 per cent of the spirits sold in Australia are bottled and canned as finished products at local manufacturing plants and distilleries. While the craft Australian industry continues to grow, it remains a fact that global producers manufacture most spirit products consumed in Australia.

The Australian spirits industry supports a workforce of 5,700 in manufacturing and a further 100,000 jobs throughout our value chain, delivering $15.5 billion in added value to the Australian economy each year.

This value-add is demonstrated by the 3.5 million annual visits to distilleries and the more than 630,000 in overnight visitors generated by distilleries, generating revenue and important economic benefits for regional Australia. It is experienced through our world-class hospitality offering, showcasing the skill of talented mixologists at some of the world's best bars; and in the festivals, sporting and cultural events the industry makes possible through major sponsorship, allowing the show to go on, while providing an occasion for consumers to responsibly enjoy premium Australian-made spirits.

Globally, spirits manufacturing has surged as consumer preferences have changed in favour of higher quality products and more moderate drinking cultures. This phenomenon, called 'premiumisation' within the industry is a significant factor in the development of the Australian spirits industry, with demand for higher quality spirits leading to increases in spending but lower reported consumption patterns, contributing to a more premium industry of higher quality spirit products.

This has also driven global producers' investment strategy, for example whisky distilleries in the United Kingdom, United States and Japan have been the recipients of significant investment capital as well as premium and super-premium tequila brands from Mexico.

In Australia, our spirits continue to win global accolades for innovative new products – like Australian whisky, shiraz gin and canned cocktails – building excitement among both domestic and international consumers, our industry risks missing the opportunity to meet this growing international demand.

When Prime Minister Anthony Albanese addressed the Queensland Media Club in April to announce the Federal Government's Future Made in Australia Act, he said:

> *"Securing jobs, attracting investment and building prosperity has never been a polite and gentle process where every nation gets a turn – it's always a contest, a race."*

In the case of spirits, the simple fact is that the race to win global market share is well started, and Australia lags our global counterparts in joining the race.

Our industry wants to be part of this race to seize the opportunities of the future; to create new jobs, make more products here, and prosper.

But the challenges impeding our participation are not of our making, nor within our control to overcome. Many of these challenges can be overcome by action from the Federal Government, but it needs urgent action.

As an industry, we have progressed so far, but could do so much more with additional support from Government.

A full analysis of the Australian spirits manufacturing industry by Deloitte Access Economics is included at **Appendix A**.

Research by Mandala which shows that Australia could be a $1 billion exporter by 2035 is included at **Appendix B**.

4. RESPONSE TO THE TERMS OF REFERENCE

SCA understands the House Standing Committee on Industry, Science and Resources has been directed by The Hon. Ed Husic MP, Minister for Industry and Science, to conduct an inquiry into Food and Beverage Manufacturing in Australia.

The inquiry will look at opportunities for expanding innovation and value-adding in the food and beverage manufacturing industry in Australia, with regard to:

4.1 Innovation trends and new technologies, both locally and internationally

Key Points

The Australian spirits industry is continually evolving and innovating to maximise the efficiencies of new technologies to enhance our product offerings.

- Technology solutions, like QR codes for product labelling, can help modernise regulatory requirements for spirits manufacturers in Australia and enhance information for consumers.
- Industry should be supported to explore further opportunities to adopt innovations and technologies to make the industry more productive and efficient.

QR Codes for spirits labelling

With the rise of globalisation and technological competition, the food and beverage supply chain has grown more complex, and many traditional systems fail to address the increasing requirement for accountability and transparency in the food supply chain.

Technology, in particular the ubiquity of smart phones and digital apps, has changed the landscape for how people obtain nutrition-related information about their food and beverage choices. The use of smart labels and QR codes on food labelling means conventional labelling may be an analogue solution for an increasingly digital world.

In response to these challenges, SCA would like to see QR codes evaluated for potential use in alcohol labelling, especially as a means to provide more detailed and targeted information to consumers. Since Covid-19, consumers have more experience using QR codes.

QR Codes offer significant advantages for inventory management:

- Can store a lot more information – up to 7,089 characters (substantially more than barcodes).
- Do not require dedicated hand-held scanners to scan a QR Code – a normal smartphone which nine out of ten Australians have will work (Deloitte, 2022)
- QR Codes are 360 degrees scannable – they do not need to be held in a particular direction to scan them, unlike barcodes that need to be scanned in a dedicated fashion (which is time-consuming).
- QR Codes are resistant to damage – they can scan well even after being damaged by up to 30%, due to an in-built error correction feature. This is especially useful in case of wear and tear, which is common in inventory management.

- QR codes can improve the provenance and traceability across supply chains, enabling easy access to product information anytime, anywhere.

This extends to sustainability credentials as well as countering concerns about ‘greenwashing’, especially in less regulated countries with products that might be competing with Australian spirits and the distillers who are making real efforts to reduce emissions and to develop cleaner and greener products.

Australia is being left behind in its food labelling requirements as other markets such as the European Union permit QR codes as a tool to provide consumers with mandatory nutrition information.

Recent labelling proposals consulted on by Food Standards Australia and New Zealand (FSANZ), such as Proposal P1059 Energy Labelling on Alcoholic Beverages, do not include QR codes as an option, which disadvantages Australian producers in the international marketplace. For traditional label changes such as this, there is an initial cost per Stock Keeping Unit (SKU) of changing the back label and write-off costs every year, in addition to any personnel costs required to implement these changes. Before FSANZ finalises any further labelling requirements, modern alternatives such as QR codes should be considered.

CASE STUDY

Pernod Ricard is rolling out an “e-label” on all products, which now appears on 85 per cent of their products in Australia and New Zealand. The digital label aims to better inform consumers about the products they purchase and how to enjoy them responsibly. Every bottle will carry its own QR code on the back label by the end of 2024.

Once scanned, the QR code directs consumers to a digital label where they can find real time information on ingredients, nutrition, alcohol and health and local responsible drinking guidelines. The label uses geo-location technology, so the information provided is in the local language with locally appropriate information and links.

QR codes can play a role in the verification and authentication of Environmental Social and Governance (ESG) claims and hard-earned sustainability credentials of products made in Australia, including full-bottled and premixed spirits.

The ability to link brands and their various containers through different production and supply processes makes the platform an attractive option for environmentally and socially responsible policies. Using QR codes, regulators and consumers can verify if products meet claims for organic, carbon-neutral, or ethical sourcing. This may also support expanded surveillance and enforcement activities by ASIC to counter ‘greenwashing’ claims by businesses operating in Australia.

Recommendation 1

Adopt QR technology to enhance consumer information and reduce the administrative and cost burden on spirits manufacturers to make regulatory changes to product labels.

4.2 Ways to support new and emerging products and industries, including premium and niche products, new proteins and indigenous foods

Key Points:

The Australian spirits industry is seeking support to meet growing consumer demand for premium and niche products manufactured in Australia.

- Consumers are drinking less alcohol but choosing more premium products – a global trend known as 'premiumisation'.
- Premiumisation celebrates quality, provenance and authentic brand stories, including legacy brands with expansive histories. Distillers and global spirits manufacturers operating in Australia are well placed to respond to this trend.
- Support from Government can help the industry capitalise on these trends and market opportunities, but increased investment – especially direct foreign investment by the global spirits companies – will help promote and grow the Australian spirits industry.
- Support is also needed rectify distortions in existing regulations that entrench structural disadvantages between spirits and other alcohol categories.

Consumer trends

Alcohol consumption 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 (2023) 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.

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

Australians are consuming alcohol differently than at any other time in our history. A generational change is taking place.

The National Drug Strategy Household Survey (2023) has shown while alcohol is still our most used drug, it also found that more Australians are giving up alcohol – between 2016 and 2019 the number of former drinkers in the population rose from 1.5 to 1.9 million Australians. Further, that decrease in consumption is largely being driven by young people. Twenty-one per cent of 18 to 24-year-olds and 24 per cent of 25 to 29-year-olds don't drink, and both those figures have more than doubled since 2001. Research also shows that the rates of underage drinking are decreasing.

When it comes to alcohol, a growing number of all consumers are more interested in quality rather than quantity. More consumers prefer spirits as their alcohol beverage, and this is even more so for products with provenance and legacy stories.

Quality has taken over from quantity.

Encouragingly for the Australian spirits industry as producers of high quality and innovative unique products, consumers are willing to spend a little more on a reasonable volume of higher quality alcohol beverages.

In recent years, the spirits industry has seen consumer preferences shift in favour of more “premium” products. As consumers increasingly seek out premium products and experiences, the Australian spirits industry is well placed to respond to this consumer trend with innovative offerings. While this trend has tempered somewhat as cost-of-living pressures have increased, we are still seeing a higher proportion of premium and super-premium spirits than ever before.

However, our contribution could be far greater if policy settings were enhanced to enable greater investment into the emerging domestic craft distilling industry. Additional improvements could be made to rectify distortions in existing regulations to enable the Australian spirits industry to compete more equitably with domestic beer and wine categories.

Attracting investment

A vibrant and productive spirits industry can help showcase Australia to the world, promoting growth in domestic manufacturing while increasing trade and employment, supporting innovation and technology, and helping the growth of regional industry.

As Prime Minister Anthony Albanese remarked in his April 2024 address to the Queensland Media Club:

“We cannot afford another decade where government is a drag on business investment and productivity instead of a driver of it.”

Increased investment is crucial to unlock the economic potential of the Australian spirits industry.

Foreign direct investment in the Australian spirits industry can take multiple forms, including re-investment of Australian made profits into existing business footprints including increased capacity, employees, marketing and manufacturing presence, the purchase of existing businesses or greenfield investment into a new distilling or manufacturing asset.

Foreign direct investment by global spirits brands offers the emerging craft distilling industry more than just capital

- ✓ Opens up export opportunities through connections in other markets
- ✓ Shares expertise to build brands in domestic and export markets
- ✓ Builds industry capabilities through knowledge exchange
- ✓ Provides access to diverse, resilient and sustainable global supply chains
- ✓ Increases innovation and the use of new technologies through collaboration.

Attracting foreign investment brings significant benefits for the spirit manufacturing industry in Australia and should be a core focus of any government policy making regarding our sector.

Foreign Investment can bring a range of benefits for our domestic industry, including access to more modern and sophisticated infrastructure and distilling techniques, access and deep understanding of distribution networks, increased volume production and greater re-investment into ancillary industries such as supply chain inputs, marketing and advertising spend, and investment in logistics and transport.

CASE STUDY

Diageo invests in Award-Winning Australian Whisky Distillery, Starward

In 2015, Diageo commenced investment in the distillery business via a fund called Distill Ventures, 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.

Starward has consistently prioritised export markets such as the United States, Germany, France, Singapore and New Zealand. Starward currently exports to more than 20 countries, with the United States accounting for 50 per cent of its total exports.

Starward Whisky took the title of Most Awarded Distillery of the Year at the 2022 San Francisco World Spirits Competition with 12 Double Gold Medals. This year, Starward was awarded 13 Double Gold Medals from over 5,500 global entries – the largest haul in the competition's history.

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

Suntory Oceania Investment in New Carbon-Neutral Manufacturing Facility in Queensland.

In August 2023, Beam Suntory and Frucor Suntory announced Suntory Oceania, a new A$3 billion multi-beverage partnership across the premium spirits and non-alcohol segments in both Australia and New Zealand.

The catalyst for their combined growth ambitions will be the construction of a new $400 million dollar carbon-neutral facility in Ipswich, Queensland, representing the largest single FMCG investment in Australia in over a decade. This investment will create the fourth-largest Australia–New Zealand beverage group with 1,500 employees, two manufacturing facilities, and five distribution centres.

The new manufacturing and distribution facility will be operational in mid-2024. The site will become home to 18 different RTD drinks over the coming year with fully automated production lines filling and packing product varieties in both cans and glass bottles. To service the facility, Suntory Oceania plans to hire 160 new employees.

The spirits industry in Scotland, seen globally as the most significant and efficient exporter of spirits in the world, is one example of an industry which has captured foreign direct investment from global companies. Foreign direct investment has had outsized effects in Scotland's economy. In manufacturing, for example, foreign-owned businesses outside of Scotland and the United Kingdom paid their employees 62 per cent more on average.

While non-Scottish businesses only account for three per cent of businesses in Scotland they account for:

- 77% of Scottish exports with 86% of Scotland's top 100 exporters being foreign or UK-owned
- 34% of employment; and
- 64% of business Research and Development spending (Mandala, 2024).

Global spirits manufacturers are currently dissuaded to make investments in Australian distilleries to create a scalable domestic manufacturing industry, as high levels of excise ultimately make such investment prohibitive. While we point to some examples in this submission, Deloitte's analysis shows that only three per cent of Australian spirits manufacturers benefit from this type of investment.

While foreign investment remains largely untapped by the Australian industry, Deloitte's report (2024) found that 77 per cent of spirits manufacturers reported that a 20 per cent increase in this source of capital would support increased production, sales and marketing activity, exports and distillery door enhancements.

A recent report by research firm Mandala found that the local industry presents as a relatively difficult investment environment for local and international investors, including global spirits companies, with high excise tax being a key driver of concern for investors. This puts Australia at a significant competitive disadvantage to top exporting countries like the United Kingdom, Unites States, and France.

The Reserve Bank of Australia suggests that hurdle rates have remained high and well above the weighted average cost of capital (WACC) in recent years, and analysis by both Mandala and Deloitte points to potential under-investment in the Australian spirits industry.

A relatively higher WACC for potential projects in Australia will be a consideration for many larger spirit manufacturers choosing between competing investments, especially across different countries.

Review excise settings for the Australian spirits industry

Stabilising excise rates is one lever the Federal Government can pull to create the conditions to attract greater foreign direct investment

At $101.85 per litre of alcohol, Australia's spirits excise is the third highest in the world, putting the industry at a significant competitive disadvantage to many of our global trading partners.

Figure 1: International comparison of spirits excise rates

This disadvantage is further entrenched by twice-yearly increases aligned with the Consumer Price Index, creating instability that curtails the necessary foreign direct investment needed to effectively grow and scale the industry prohibitive.

These settings do not only impact Australia's ability to effectively compete for global market share and investment, but also limit domestic competition with other categories of alcohol.

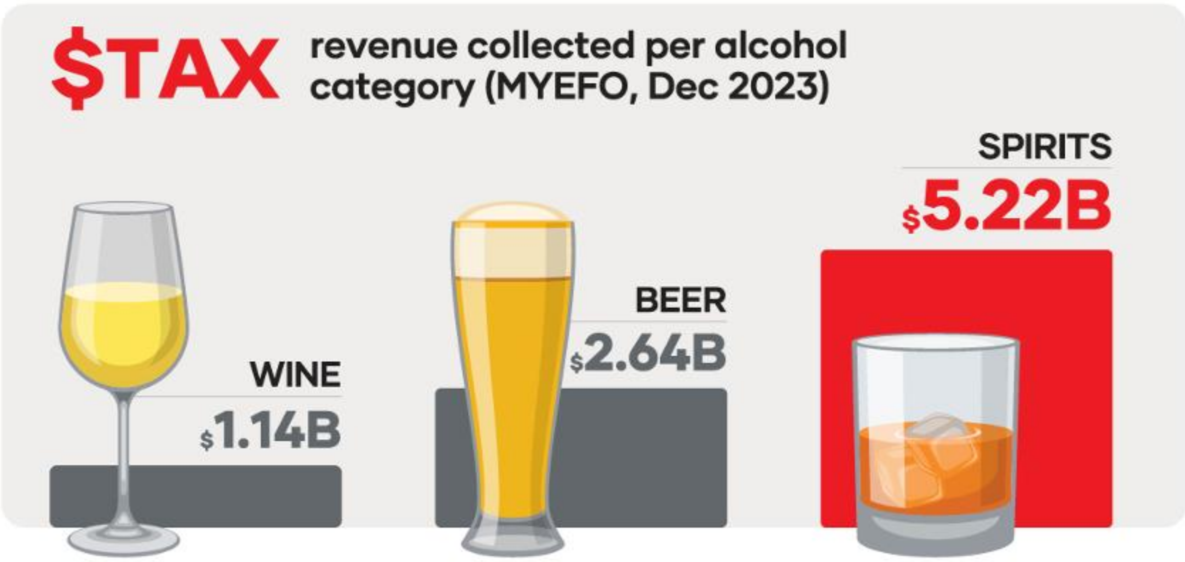
Beer is taxed at about half the rate of spirits, with wine taxed substantially less again, at about a quarter of Australia's spirits tax.

When translated into the tax per standard drink, the disparity is clear:

Figure 2: Tax per standard drink

While spirits account for approximately 20 per cent of total alcohol consumption, our sector pays more than 50 per cent of duties collected across alcohol categories.

Figure 3: Tax per standard drink



There is no public policy rationale for this inequity.

In fact, several government reviews including the Henry Tax Review (2009), Rethink: Tax Discussion (2015), Senate Red Tape Inquiry (2017) and Productivity Review (2017) have recommended reforms to address the disparity between the taxation of alcohol products.

It has been 15 years since Ken Henry recommended reform of Australia's complex alcohol taxation regime – and 15 years of inaction.

While the industry has suffered as a result of government's failure to act on these recommendations, perversely, government revenue is now suffering, too.

The 2023–24 Mid-Year Economic and Fiscal Outlook reported a $170 million dollar reduction in revenue for spirits from the 2023–24 Budget, and a $230 million reduction in forecasted revenue for 2024–25 (a six per cent reduction). This is the first time in recent years the government has revised down its projections for spirits excise revenues, but without reform, it is unlikely to be the last.

While other jurisdictions with more favourable tax settings for spirits have learned that maintaining high levels of tax and indexation on their industries limits value-add, investment and innovation, Australia fails to learn from their experiences.

Duty rate pauses in other markets have enabled industry growth

United Kingdom:

- Paused duty increases consecutively from 2014, attracting more than 500 million pounds of additional investment and supporting a further 42,000 jobs.
- Actual tax revenue from the spirits sector in the five years to 2023 was, on average, 10% higher than forecasted revenue.
- Recommenced duty increases in early 2023 (increased by 10.1%), causing the largest rise in UK inflation on record and a 20% decline in spirit sales.
- Reinstituted a pause in duty increases in late 2023 in response to falling consumption and reduced revenue.

Canada:

- In 2023, capped excise indexation on beer, wine and spirits at 2% in anticipation of a 6.3% increase, due to high inflation to support producers and lessen the impact of inflation on consumers.
- In March 2024, extended the cap for another two years in recognition of the value the sector delivers to the Canadian economy and to support further industry growth and innovation.

Japan:

- National Tax Agency aligning tax rates to remove distortions between different alcohol products.
- Taxes on spirits are not subject to the latest tax increases

Deloitte's (2024) survey of Australian spirits manufacturers revealed that spirits excise is the largest barrier to growth facing the industry.

Modelling undertaken by research firm Mandala leveraging insights from the Deloitte report shows that an excise tax freeze and broader reform would create a more sustainable and predictable environment for the spirits industry to operate in. It would mean distillers are better able to reinvest revenue back in their businesses, while simultaneously creating a more favourable investment environment for foreign direct and other capital investment.

CASE STUDY
Suntory Oceania Investment in New Carbon-Neutral Manufacturing Facility in Queensland.

In August 2023, Beam Suntory and Frucor Suntory announced Suntory Oceania, a new A$3 billion multi-beverage partnership across the premium spirits and non-alcohol segments in both Australia and New Zealand.

The catalyst for their combined growth ambitions will be the construction of a new $400 million dollar carbon-neutral facility in Ipswich, Queensland, representing the largest single FMCG investment in Australia in over a decade. This investment will create the fourth-largest Australia–New Zealand beverage group with 1,500 employees, two manufacturing facilities, and five distribution centres.

The new manufacturing and distribution facility will be operational in mid-2024. The site will become home to 18 different RTD drinks over the coming year with fully automated production lines filling and packing product varieties in both cans and glass bottles. To service the facility, Suntory Oceania plans to hire 160 new employees.

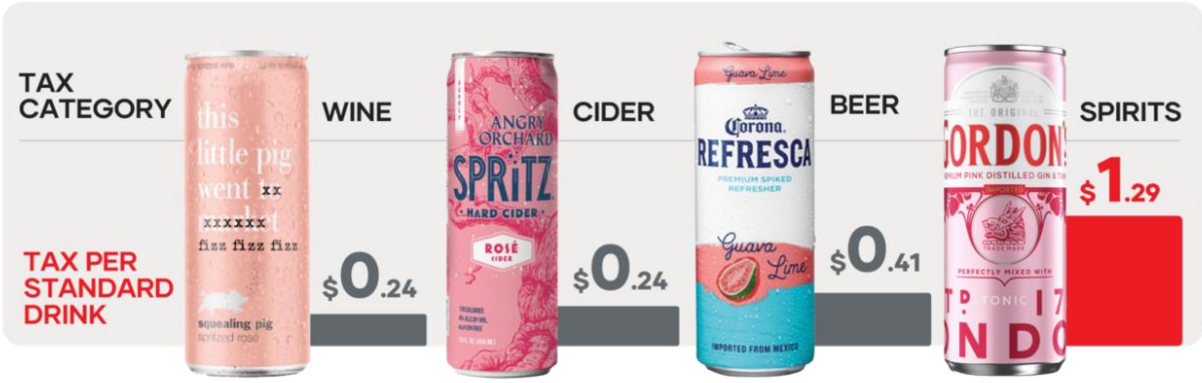
Recommendation 2
Introduce an immediate freeze on spirits excise indexation for two years. Following this, the Federal Government should initiate an urgent review of broader spirits excise settings with a view to creating the conditions to attract greater foreign direct investment and other capital investment in the Australian spirits industry, thereby bolstering domestic manufacturing capabilities and increasing opportunities to export spirits made in Australia.

Rectify distortions in alcohol excise settings to stimulate innovation

The extreme excise disparity between different alcohol categories is at odds with the consumer reality that individuals themselves are becoming more category agnostic, and do not identify as ‘beer’, ‘wine’ or ‘spirits’ drinkers. They increasingly focus on experiences and occasions—for example, low-key afternoon drinks or drinking with a meal.

Inconsistencies are shown by comparing similarly packaged ready-to-drink products (RTDs), commonly displayed in the same section of a bottle shop and often representing fusions of different categories, e.g. rosé gin or rosé cider.

Figure 4: Tax per ready-to-drink can (RTD)



These four products produce varying excise outcomes with no logical consistency, despite having similar levels of alcohol (4.5–8.5% ABV) and similar target markets.

From a consumer's perspective, these products all look the same and represent similar taste and flavour profiles. However, they produce wildly different tax outcomes for producers.

The distortions between the taxation of these products ultimately dissuade innovation in spirits, given the substantially higher excise rate associated with using a spirit-base. Further, it incentivises consumer purchasing of lower-taxed beer and wine-based products, over spirit-based alternatives.

This entrenched structural disadvantage makes it increasingly difficult for spirits manufacturers to compete for market share in the highly contested space of RTD products.

Recommendation 3:

Rectify distortions in regulatory settings within the alcohol beverage sector that penalise the development of new and innovative, premium products.

4.3. Opportunities across both domestic export markets for Australian manufactured products, including shifting consumer trends.

Key Points

The Australian spirits industry is looking to capitalise on domestic and export opportunities for Australian manufactured spirits products that align with shifting consumer preferences and trends.

- Consumer preferences and trends are shifting to lower consumption of higher quality products, both in Australia and around the world.
- Australia has a unique opportunity to position itself as a producer of in-demand premium spirits products.
- Australia benefits from a strong country brand and natural advantages, but these are not being exploited for the benefit of increasing exports of spirits manufactured in Australia.
- Further capital and foreign direct investment is needed to scale-up Australian distilleries to meet the demand of global export markets.
- In the domestic market, the distillery door is an important distribution channel especially for smaller craft distillers in regional areas.
- Distillery doors are an important opportunity for the Australian spirits industry, as it provides new opportunities for product and services to diversify and expand, and there is growing domestic and international demand for this offering.

Just 17 per cent of Australian spirits manufacturers currently export their products (Deloitte, 2024). The vast majority of Australia's total $210 million export revenue (FY23) is concentrated among a handful of leading domestic brands (Mandala, 2024).

There is a long tail of producers that have embarked on establishing a foothold in export markets but have yet to convert this into a meaningful contribution to their bottom line.

Regardless of scale, current exporters all report similar challenges associated with leading the charge overseas.

While some manufacturers may have enjoyed the exposure from award wins in major spirits competitions, awareness of these accolades is concentrated among industry insiders and spirits aficionados.

As such, aspiring exporters are entering markets from a standing start. Their prospective customers may be minimally aware of Australia, let alone its credentials as a spirits producing nation.

This makes the task of marketing their brand and products much more complicated than for competitors who are standing on the shoulders of a strong country brand.

A fledgling Scotch whisky producer can fast-track its marketing pitch straight to the substantive attributes of its brand, people and products.

An Australian whisky producer would first be mired in explanation about the Australian geography and climate, and its history as a whisky producing nation. They would then need to explain the overarching style and parameters of 'Australian whisky'. Only then can they progress to pitching their own distillery and products.

These challenges were borne out in the Spirits Industry Sector Competitiveness Plan by research firm Mandala, which found spirits producing nations with higher perceptions of country branding were much better able to achieve their trade potential.

The study found country branding was integral to the export success of brands such as Ciroc Vodka (France), Hibiki Japanese Whisky (Japan) and Herradura Tequila (Mexico), which leveraged their heritage as part of their marketing and export strategies.

Australia has the right foundations to grow its exports through its country brand, with a reputation for quality, safety and compliance, coupled with iconic geographic sites and an attractive lifestyle.

However, these assets are not being effectively utilised. Australia's spirits industry does not currently have a strong presence internationally, and there are significant investment and marketing costs to enter new markets.

The Federal Government could help raise overall awareness of Australia as a spirit producing nation, so that individual producers are not effectively making cold calls when they enter new export markets.

The required marketing platforms and trade programs that are already in place for Australian wine can largely be adapted for Australian spirits, though Austrade needs dedicated resources with specialist experience and understanding of spirits' unique routes to market and associated challenges.

CASE STUDY:

How the Japanese Government supported the growth of its spirits industry

Japan has illustrated what is possible when an emerging spirits producer nation pursues export growth in an organised manner, with genuine government buy-in and support.

Japan has grown spirits exports more than sixfold from US$88.3m in 2013 to US$602.1m in 2023, representing an annual growth rate of 24%.

This growth was driven by the Japanese Government's export body, the Japan External Trade Organisation, which was acting on a 2013 resolution to develop a strong export environment for Japanese spirits.

Since then, government policies to support Japanese spirits have included:

- setting clear targets for countries and export volumes;
- exhibiting spirits in major overseas trade shows;
- subsidising distillers' efforts in developing new markets;
- providing market information for distilleries interested in exporting;
- expanding the use of geographical indicators; and
- supporting the abolition of tariffs and import restrictions on Japanese exports.

Recommendation 4:

Assess export-readiness and market access supports available for Australian wine for application to the Australian spirits industry, including:

- Dedicated resourcing, programs and activities within Austrade;
- Market access tools and support; and
- Building 'Brand Australia' through the inclusion of spirits in Australia's food and drink narrative and embassies in key export markets.

Domestic Market Opportunity

A growing and vibrant spirits industry in Australia must be aligned with the changing preferences and trends impacting on consumption choices made by domestic consumers.

The domestic market opportunities for spirits producers in Australia are driven by premiumisation and are aligned with the shift in consumer preferences for high quality spirits products.

In the past decade, consumers have increasingly opted for premium offerings, with spirits products classified as 'premium or above' growing from 25 per cent of category value to almost 35 per cent. 'Super-premium plus' spirits have grown in value more than twice as fast as other price tiers in the spirits category (IWSR, 2022).

Distillery Tourism

In line with changing patterns of consumption, consumers are seeking more experiential offerings that celebrate local and indigenous produce, and sustainable practices.

Distillery doors play a pivotal role for the spirits industry at a time when consumers increasingly want to know the people and the story behind the drinks they consume. Consumers demand opportunities to taste the product at the place where it was made, and they are actively seeking out the unique experiences offered by many distillers.

Almost two thirds of spirits manufacturers in Australia operate a distillery door, which range from world class hospitality offerings to rustic, farm gate-type experiences. These distillery doors had 3.5 million visits from patrons representing a 351 per cent increase on visits recorded in 2018, generating $58 million in revenue in 2023 alone.

Data from Tourism Research Australia indicates a significant growth in visits to distilleries by domestic overnight visitors – 16 per cent each year between 2019 to 2022. In 2019, 407,000 domestic travellers visited a distillery as part of an overnight trip, and this grew to 631,000 in 2022.

Domestic overnight visitors to distilleries spent an average of $343 per trip, higher than the average spend per trip at breweries and wineries, which was $319 and $325 respectively.

Four Pillars Gin in Healesville, Victoria is one distillery which is capturing this growing interest in distilleries as a tourist destination. Four Pillars is the most visited destination in the Yarra Valley region. In 2022, it reopened its visitor centre after a $7 million renovation that tripled visitor capacity at their Healesville site, acknowledged by the founders as a result of the direct foreign investment of global drinks company, Lion. Other popular visitor centres, like the Bundaberg Rum Distillery (Queensland) and Starward (Victoria) have also benefitted from foreign direct investment to enhance their brand homes, resulting in increased patronage and visitation.

Deloitte's analysis (2024) showed that fifty-five per cent of distilleries operating a distillery door are in regional locations, while 45% are in metropolitan areas. There is further interest in opening distillery doors within metropolitan areas, with 64% of distilleries who do not currently have a distillery door are planning to open one.

Unlike geographically-constrained cultivation products, spirits can be made throughout Australia – including in the regions, where half of the industry's spirits manufacturers are located. Distilleries offer additional economic benefits to these areas, by enhancing local tourism, hospitality and utilisation of accommodation services. Further industry development will lead to stronger regional economies that encourage similar craft and artisanal industries.

Australian spirits producers could benefit from similar incentives as those offered to the wine industry to enhance distillery door tourism. The objective of the Wine Tourism and Cellar Door Grant is to support wine and cider producers who add value by encouraging visitors to wine regions, and thereby encourage wine tourism. Wine and cider producers who meet the eligibility criteria can access an annual grant of up to $100,000 (GST exclusive) for their eligible domestic cellar door sales. Total funding under the grant program is capped at $10 million each financial year.

The Australian spirits industry offers the same value-add as wine tourism and this program should be replicated for Australian spirits to achieve the benefits identified in the wine program. There is no reason there should be discrimination between these two alcohol categories. Additionally, there is precedent in the program being extended because of the inclusion of cider.

Recommendation 5:

Replicate the existing Wine Tourism Cellar Door grants program for the Australian spirits industry to remove discrimination between alcohol categories, in recognition that distillery doors provide the same benefits to regional economies as cellar doors.

Industry Standards

Australian consumers and the spirits industry would benefit from improved product descriptions to enhance quality and integrity in the spirits made by spirits manufacturers in Australia. Australia's trading reputation and trade negotiations would also benefit through greater compliance and avoidance of trade and labelling disputes, especially over terms protected by certification trademarks, like "Scotch Whisky" and products considered distinctive to a particular place of origin, like "Bourbon" and "Tennessee Whiskey' are to the United States.

Spirits & Cocktails Australia recently raised the issue of an Australian producer marketing a product labelled "Bourbon: Made in Australia". The naming of this product is false and misleading and could possibly infringe the rights of US bourbon producers through the use of the distinctive term "bourbon." However, there is not currently a single authority to raise any potential objection to its use, nor any adequate forms of recourse available under Australian law.

In Australia it is law that whisky, brandy and rum must be stored in wood for no less than two years, for the terms 'whisky', 'brandy' and 'rum' to be associated with these products, whether produced in or imported into Australia. It is also law that provenance and advertising claims must not be misleading or deceptive. Applicable laws include the Excise Act, the Customs Act, the Food Standards Codes, and the Australian Consumer Law. However, enforcement of these laws is weak as jurisdiction is split across multiple government agencies.

There are also international standards and requirements, including the *Consolidated text: Regulation (EU) 2019/787 of the European Parliament 2019* around spirits such as gin, which must include juniper.

We note that Wine Australia is responsible for ensuring compliance with the Food Standards Code at the point of export, while the *Wine Australia Act 2013* (Act) establishes a Geographic Indicator Committee (GIC). In the case of the unofficial "bourbon" being produced locally, Wine Australia also has powers to intervene to stop products being exported that infringe the rights of Australia's trading partners.

The benefits of achieving truth in labelling through establishing product descriptions and effective compliance is that consumers can purchase with confidence, knowing that the product they are purchasing is as it is described on the label.

While limited definitions enable Australian spirits producers to be more innovative, there is significant scope and ability to build on a regime of product descriptions that would enhance quality, and in the longer-term, enable further intellectual property rights that build value in domestically manufactured products, like certification trademarks and Geographical Indications.

The spirits industry in Australia cannot improve product descriptions and standards alone, nor can it be tasked with effectively monitoring compliance. Urgent government support and intervention is needed to ensure that Australia's reputation in global trade is not diminished through continued inaction.

It should also be noted that Australia committed to undertaking a review of product descriptions for spirits in finalising the Australia-United Kingdom Free Trade Agreement. To date, there has been limited progress in advancing this work as it is being completed through a volunteer committee of the Australian Distillers Association. Additional support from departmental resources could assist in the delivery of this commitment.

Recommendation 6:

Develop product descriptions and minimum standards for Australian spirits to build confidence in these products among domestic and international consumers and provide a single point of enforcement to ensure product integrity.

4.4 Approaches to circular economy, waste reduction and decarbonising, including packaging and food waste

Key Points

The Australian spirits industry is committed to the development of sustainable practices that promote the circular economy, improve waste reduction and help reduce emissions.
This is both an important social obligation and ESG objective. It is also critical for Australian products to meet increasing consumer demands and to capitalise on export opportunities.

- The spirits industry can benefit from improved recycling, especially from glass bottles, as well as the reduction of plastic and the increased use of more recycled packaging.
- More sustainable energy and water use practices can improve efficiencies and promote the production of more responsible products.
- Developing a spirits industry sustainability roadmap will provide a coordinated framework for the delivery of sustainability initiatives, while assisting the industry to capture its contribution toward achieving defined government targets.

The Australian spirits industry shares 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. Our producers depend on a healthy eco-system and the industry is committed to promoting more sustainable practices and outcomes.

The industry recognises that consumers are demanding more ethical and sustainable practices and products, with retailers and distributors increasingly demanding compliance with sustainability policies and this is already impacting business decisions.

Consumers are increasingly supporting brands that are working toward an environmentally sound future. As brands strive to meet evolving consumer expectations, sustainability is becoming a potential competitive advantage as well as a necessary requirement.

For the Australian spirits industry, this could mean that sustainability credentials will become an industry standard as well as an example of Australia's clean and green produce.

Increased consumer demand for organic and natural products is also closely related to the recent interest in sustainable practices.

The alcohol beverage industry is one place where there is ample opportunity to win over customers with business sustainability. Since alcohol is a discretionary purchase, consumers tend to be more discerning about the brands they support.

Sustainable Practices

Spirits & Cocktails Australia members are committed to ensuring sustainable practices in the manufacturing and supply of spirits products in Australia. Some examples of member programs and initiatives are included below.

Archie Rose

Archie Rose is committed to sustainability, regularly implementing practices across the business that ensure operations are socially, economically, and environmentally aligned with the values that guide our day-to-day operations and our brand values of innovation, authenticity, education and quality.

Archie Rose has made several changes in line with how they produce their award-winning spirits. In their production cycle, they prioritise working directly with growers and farmers to ethically source locally farmed, raw ingredients to minimise freight miles. Their partnership with Voyager Craft Malt in the Riverina is evidence of this, supporting 100% sourcing of Australian malts, most of them from their home state of New South Wales.

Their Botany Distillery includes investment into a mash filter that enables a high efficiency brewing process to extract the most flavour and fermentable material from each brew which allows them to minimise power, gas, and water usage per litre of alcohol produced. Moreover, their capital investment in innovative chilling equipment also ensures they are wasting less power and improving their overall energy efficiency.

They continue to explore and malt non-commercial varieties of rye and barley that have a lower water requirement to grow. They have also shifted as a business to ensure they are wasting as little material as possible in an ongoing effort to be entirely carbon neutral. As proof of this commitment, they have implemented high gravity brewing, which uses less water and energy to produce whisky.

They also employ the use of spent grains for feeding cattle and have engaged ‘Loop Organics’ to pick up waste, which is injected into the ground to grow cattle feed to create a full closed loop.

The Archie Rose Operations team prioritises procuring ingredients from ethical, sustainable suppliers. Recent sustainability innovations include the development of lighter-weight bottles for their new Fundamental Spirits range of whisky, gin and vodka, using less glass and minimising the carbon footprint in transit.

Their Botany Distillery is also home to eight bee hives that produce honey that is then made into distillate for our spirits, contributing to bee colony sustainability and growth. They have also installed a new cardboard shredding machine that transforms unused cardboard boxes into an eco-friendly, high-quality void-fill packaging solution for outgoing orders, reducing CO2 emissions via the reduction of waste pick up and packaging material delivery.

Archie Rose also uses 100% cotton canvas bags for home delivery of spirits. The business recently transitioned the packaging for all display boxes to be 100% recycled FSC certified and can now be 100% recycled through kerbside recycling.

They recycle all broken pallets and obsolete bottles, all pallets are wrapped and produced at Archie Rose now use 100% biodegradable cling film.

At their Bar and Cellar Door in Rosebery and across all Archie Rose events, they have spearheaded the removal of plastics, introduced compostable items, and transitioned to full use of glassware to be washed and reused on multiple occasions. Wherever possible, their events team purchases multi-use and reusable branded items ranging from bars to signage, props, and decorations. Their hospitality team ensure that bottle corks are reused, Archie Rose glass bottles are de-labelled and reused for water and pre-batched cocktail ingredients, and all used glassware is correctly recycled.

They have introduced a ‘closed-loop bartending’ system in Rosebery which has seen a thoughtfully curated menu that aims to minimise waste. An example of this is the ‘Big Banana’ cocktail created using syrup from banana peels, with the dehydrated peels then used to make garnishes.

Archie Rose’s commitment to sustainability is evident across all promotional activities. Initiatives in the sales and marketing team include the reduction of printed collateral across all promotional materials in favour of digital assets, bulk spirit supply to their partners and vendors to reduce packaging, and always ensuring branded materials are sustainable and durable.

Diageo

Diageo has published a 10-Year environmental, social, and governance (ESG) action plan document, 'Society 2030: spirit of Progress', centres around three key priorities areas:

1) to promote positive drinking, champion inclusion and diversity;
2) to pioneer grain-to-glass sustainability; and
3) to decarbonise all direct operations in its business by 2030 and to decarbonise the entire business and value chain by 2050.

Diageo has also set additional ambitious global sustainability targets to be delivered by 2030, including:

- Reduce water use in their operations with a 40% improvement in water use efficiency in water stressed areas and 30% improvement across the company;
- Replenish more water than is used for their operations for all sites in their water-stressed areas by 2026
- Invest in improving access to clean water, sanitation, and hygiene (WASH) in communities near their sites and local sourcing areas in all of their water-stressed markets;
- Engage in collective action in all of their Priority Water Basins to improve water accessibility, availability and quality and contribute to a net positive water impact;
- Reduce their value chain carbon emissions by 50%
- Use 100% renewable electricity across all of their direct operations
- Achieve zero waste in their direct operations and zero waste to landfill in their supply chain
- Ensure 100% of their packaging is widely recyclable (or reusable/compostable)
- Continue their work to reduce total packaging and increase recycled content in packaging (delivering a 10% reduction in packaging weight + increasing the % recycled content of our packaging to 60%)
- Ensure 100% of their plastics is designed to be widely recyclable (or reusable/compostable) by 2025 and achieve 40% recycled content in our plastic bottles by 2025, and 100% by 2030
- Provide all of their local sourcing communities with agricultural skills and resources, building economic and environmental resilience (supporting 150,000 smallholder farmers)
- Develop regenerative agriculture pilot programmes in 5 key sourcing landscapes

Bundaberg Distilling Company

Bundaberg has established water conservation targets, include returning 100 per cent of wastewater to the environment, steam condensation turned into water for further use and an increase in cooling water cycling.

The company is also using 100 per cent green steam sourced from its own sugar mill for distillation.

To support the circular economy, Bundaberg is aiming to have zero waste to landfill while increasing recycled content and making 100 per cent of its packaging recyclable or reusable. This will include the removal of 460 tonnes of cardboard each year from packaging at its Huntingwood site, the reuse of dunder (a by-product of rum production) as crop fertiliser and the phasing out of plastic straws and stirrers.

The company has also installed a 160-kilowatt solar power system at its Visitor Experience Centre. The system will not only help the local business cut electricity usage by roughly 260 megawatt hours annually, but it will also help to reduce carbon dioxide emissions by more than 200 tonnes each year.

Beam Suntory

The Beam Suntory Proof Positive goals are aligned to the United Nations' Sustainable Development Goals (SDGs) and stem from the global Suntory Group's Sustainability Vision, including goals to reduce water usage and greenhouse gas emissions by 50 per cent by 2030, and using 100 per cent recyclable packaging and 40 per cent recycled materials by weight across the packaging portfolio by 2030.

In August 2023, Beam Suntory and Frucor Suntory announced a new $3 billion partnership, Suntory Oceania, that includes a new state-of-the-art manufacturing and distribution facility in Ipswich, Queensland. The new carbon neutral manufacturing facility is the largest single FMCG investment in Australia in the last decade.

Brown-Forman

Brown-Forman has established ambitious global sustainability commitments that are intended to align their efforts with industry best practices and the most current climate change science.

These commitments include:

- Source 100% of electricity from renewable sources by 2030;
- 100% of primary packaging to be recyclable or reusable by 2030;
- 100% engagement with their direct farmers on regenerative agricultural practices by 2025;
- Reduce operations and supply chain emissions by 50% by 2030;
- Achieve net-zero Greenhouse Gas Emissions (GHG) in operations and supply chain by 2045;
- 100% of their high risk and business critical watersheds to achieve water balance by 2030.
- Evaluating their wood supply chain and developing new sustainable forestry goals.

Lark Distillery

In 2021, Lark was declared Australia's first carbon neutral distillery. The accreditation is issued under the Federal Government Climate Active Program, one of the most widely recognised carbon neutral programs of its kind in the world. This renowned certification is only awarded to businesses that have credibly reached a state of achieving zero net emissions, meaning no activities associated with running Lark Distillery have a negative impact on the climate.

In addition to this, Lark continues to determine how to best minimise its environmental impact. Their spent grain is provided to local farmers as cattle feed, and we have undertaken very early investigations into using algae additives to reduce cattle methane. Their spent yeast is provided to pig farmers, and we are investigating how best to reuse the yeast within our production process. Their wastewater is re-purposed for fertigation.

Lark has also investigated hydrogen as an alternative fuel for steam generation for the large amount of heating required in a distillation process and also biogas to decarbonise, however these options are not easily obtainable and are currently cost prohibitive in Tasmania.

External to production, Lark now provides Forty Spotted Gin in five litre packages for high volume customers, as well as Lark's own hospitality venues. This significantly reduces the amount of packaging and waste to landfill for these products. They are looking into appropriate packaging alternatives that create a more circular packaging life cycle, while still reflecting the luxury nature of our products.

Pernod Ricard

Pernod Ricard's commitment to environmental sustainability and responsibility is encapsulated in the company's 2030 Sustainability & Responsibility (S&R) roadmap, which is based on four key pillars (Nurturing Terroir, Valuing People, Circular Making, Responsible Hosting) with strong global objectives supporting the United Nations Sustainable Development Goals (SDGs).

The roadmap covers sustainable production, packaging, and people, with targets including:

- 100% of packaging reusable, recyclable or compostable by 2025.
- 100% of grape growing partners certified to sustainability standards by 2030.
- Contributing to carbon neutrality in direct emissions by 2030.

Spirits Platform

Spirits Platform plans to build a reporting system to measure their CO2 footprint and implement reduction strategies; educating people on climate change and how to operate in a carbon neutral manner.

They also plan to implement initiatives such as funding tree-planting to offset CO2 emissions produced by their business and moving to a fully electric car fleet by 2030, recharged from carbon neutral stations at their Head Office.

Spirits Platform are also committed to partnering with their brand principals in being socially, environmentally, philanthropically, and economically responsible.

Industry Sustainability Strategy

The Australian spirits industry would benefit from a coordinated strategy to help further reduce emissions in the production, packaging and distribution of spirits produced in Australia and imported from overseas.

Given the importance of the issue, in combination with the financial position and varied size of operations throughout the industry, support is needed to develop such a roadmap to define a coordinated industry approach. We note, our industry counterparts in Scotland and Ireland have benefits from developing such plans.

An industry roadmap will leverage existing efforts of SCA members and maximise the benefits of ESG programs and initiatives being pursued elsewhere in the industry, like BCorp certification.

Opportunities for decarbonisation in the Australian spirits industry are potentially high for energy and water consumption, as spirits production is an energy-intensive process, from farming through to bottling, requiring significant quantities of water. As a result, a number of Australian spirits manufacturers are implementing more sustainable practices to reduce their water consumption, are pursuing opportunities to access or identify ways to reduce energy consumption.

An industry-wide sustainability strategy will, assist in the decarbonisation of the industry and supply chain, responding to consumer demands for clean products and more sustainable practices.

Recommendation 7:

Provide support for the development of an industry-specific sustainability roadmap and initiatives to contribute to the delivery of the Australian Government's de-carbonisation and climate change targets, while meeting international demand for sustainably produced products.

Container Deposit Scheme

The Australian spirits industry already participates in state-based Container Deposit Schemes, through the recycling of spirits-based pre-mixed alcohol beverages sold in eligible bottles and cans. Many states are also planning to expand these schemes to full-sized spirits and wine bottles, as is already the practice in Queensland.

While such schemes have encouraged greater consumer awareness and participation in recycling, the circular economy benefit of these schemes is limited by the containers in scope for recycling.

We believe there is opportunity to rethink the Container Deposit Scheme to maximise the capture of available material that can be recycled, like jars and juice bottles, to achieve greater circular economy benefits and reduce volume of new material used in manufacturing.

Harmonising the requirements and implementation of these products in scope for recycling across state borders will provide consistency for consumers participating in these schemes, while easing the administrative burden and cost for spirits producers interfacing with multiple scheme operators.

Greater alignment with other legislative or regulatory changes for alcohol beverage labelling, including proposals from Food Standards Australia and New Zealand, is also needed to reduce the costs and administrative burden on spirits manufacturers in complying with these changes. Alternatively, as outlined above, the information could be provided via a QR code.

Recommendation 8

Harmonise state-based Container Deposit Schemes to align items in scope for recycling and administrative requirements across all Australian States and Territories.

Availability of recycled material

The Australian spirits industry believes there are currently impediments to achieving higher rates of beverage container glass being recycled into new glass containers. We believe that more needs to be done to decrease the scope of non-beverage container glass lost to landfill due to damage or spoilage in comingling with other recycling material in kerbside collection.

For Australia to become a regional hub for production and bottling, there must be access to a consistent supply of clean cullet to meet recycled content requirements and reduce carbon emissions from production. This would also create the demand required for the system to be circular.

According to the CSIRO, most glass recyclers in Australia do not yet have the technology for efficient sorting and cleaning. It is important that governments support improved sorting to ensure that the alcohol beverage manufacturers can secure the required volumes and specifications of recycled glass to make further improvements in our efforts to promote the circular economy and to reduce the volume of waste diverted to landfill.

SCA members have reported there are significant challenges with the effective and efficient sorting of different glasses, resulting in shortages of the availability of recycled glass to meet broader sustainability goals. This limits the capacity for spirits producers to increase the amount of recycled material in the bottling and packaging of their products.

Recommendation 9

Address market gaps impacting the availability of recycled materials to sustainably produce more bottles and packaging in Australia.

4.5 How the research sector can help to grow this ecosystem

Key Points

Enhancing industry data collection by government agencies can inform a better understanding of the Australian spirits manufacturing industry's contribution to the economy through skills and job creation.

A long-term view of investment in research will help to protect the quality and reputation of Australian-manufactured spirits.

Improving industry data collection and workforce statistics

Improving the collection of industry data through government agencies such as the Australian Bureau of Statistics and Australian Taxation Office will enhance government's understanding of the Australian spirits industry's contribution to the economy and employment.

Measuring our contribution with greater specificity will help to identify skills gaps and understand diversity and inclusion within the workforce to enable the spirits industry to effectively train its contemporary workforce and contribute to the skills of the future. Further it will help identify areas for industry development and additional government support, through targeted programs and funding.

Collecting this data through government agencies will also provide credibility and confidence to companies seeking to make investments in the Australian industry, while easing the financial burden on industry participants to self-fund this research.

Data collected by both the Australian Bureau of Statistics (ABS) relating to Business Counts and by Jobs and Skills Australia relating to employment numbers and occupation codes is failing to capture any of the recent growth in the spirit manufacturing industry over the last decade. This failure to accurately report the size of the industry is found both within the ANZIC and ANZSCO code systems.

Currently, ANZIC Code Class 1213 captures all businesses coded under "Spirit Manufacturing", which is described as businesses which "consists of units mainly engaged in the fermentation, distillation or blending of fortified spirits for human consumption". As per current ABS data relating to business counts covering the July 2019 - June 2023, data shows only 177 operating businesses, which is well below the known number of commercial distillation licences issued by state and territory governments and the reported distillery numbers produced by the Australian Distillers Association, which puts the number of these businesses at 700 in Australia. This apparent failure to appropriately capture business numbers is a concerning failure to accurately report the size of the spirit manufacturing industry and should be investigated by the ABS.

Within the ANZSCO Code system, there is currently no designation for distillery worker under Food and Drink Factory Worker (8311), despite codes existing for Brewery Worker (831112) and Winery Cellar Hands (831118). Equally, no job description of 'Distiller' exists under Chemists, and Food and Wine Scientists (2342) despite there being a separate designation for Wine Makers (234213). This means no jobs data is being collected for the distilling industry under our ANZSCO System, other than that which is mixed into a miscellaneous designation with other jobs.

Recommendation 10

That the ABS examines shortcomings in the current data collection relating to ANZIC Code 1213 relating to the underreporting of spirit manufacturing businesses, and establishes two new ANSZO Codes, one for 'Distillery Workers' under ANZSCO Class 8311 and one for 'Distiller' under ANZSCO Class 2342. This will ensure the data collection relating to the size and contribution of the Australian Spirits Industry is properly accounted for in business and workforce figures.

Supporting further industry research

The Australian spirits industry would benefit from a body that could conduct research that supports the long-term sustainability of the industry.

A comparable model would be the Scotch Whisky Research Institute (SWRI) in Edinburgh, which provides its members with a high level of academic expertise combined with in-depth knowledge of the whisky production process and a good understanding of industry research priorities.

SWRI's services include compositional and sensory analysis for a range of quality control, troubleshooting, authenticity and product development applications. In addition to whisky, they analyse a wide range of other samples including new-make spirits, other spirits and associated production samples.

The SWRI also conducts research to support the sustainability of Scotch Whisky as a premium global product, providing knowledge to address environmental and other challenges faced by industry participants.

Please refer to the submission from the Scotch Whisky Association for further information about this initiative.

Recommendation 11:

Develop greater industry research to support the long-term sustainability of Australian-manufactured spirits as premium products.

4.6 Future workforce and skills needs

Key Points

The Australian spirits industry recognises the importance of workforce skills and development.

- The industry has great potential to generate additional jobs and support an increasing number of employment opportunities, especially in regional areas and those areas that cannot support agricultural activity.
- Distilling industry jobs are highly skilled and well-paying roles.
- The Australian spirits industry supports other important sectors such as hospitality and retail, as well as tourism and agriculture.
- There is a high proportion of women employed in the Australian spirits industry, with increasing opportunities for women, especially those with science qualifications, to work in senior roles in distilling.
- Workforce skills and training are needed enhance innovation and diversification as the Australian spirits industry responds to changing consumer trends.

The Australian spirits industry is a significant supporter of diverse employment across the production, distribution and wider supply chain, including hospitality and agriculture, as well as the professional and business services industry.

Deloitte's analysis (2024) confirms spirits manufacturing employment is estimated at approximately 5,700 jobs. Australian spirits producers need ingredients, equipment and machinery to make their products, with transport distributors and retailers needed to sell them. However, they also need accountants and sales and marketing professionals to support their businesses. The industry creates significant indirect jobs in professional services and related industries, such as bottling, canning, labelling and tourism, transportation and event planning.

Unlike geographically-constrained cultivation products, spirits can be made throughout Australia – including in the regions, where half of the industry's spirits manufacturers are located. Over two-thirds of manufacturers operate a distillery door, with over three million visits made by domestic and international patrons in 2023, supporting a broader tourism workforce.

Deloitte (2024) also confirms the spirits industry has an overall younger worker profile, with 47 per cent of employees aged under 30. This is significantly higher than the national average and is most pronounced in hospitality, with 50 per cent aged under 30, and spirits retailing (43 per cent). Spirits wholesaling has an older worker profile, with 25 per cent aged over 50, compared to an average of 17 per cent across other parts of the spirits industry. The participation of women in roles in the spirits industry, estimated to be approximately 44 per cent, contrasts to male-dominated workforces in breweries and wineries, with males comprising 90 and 80 per cent of these workforces, respectively.

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.

Groups such as Australian Women in Distilling and Women of Australian Distilling promote, encourage and support women and gender diverse people working within the sector. Participants of these groups benefit from networking opportunities to learn from each other and from female leaders from global companies operating in Australia.

Despite being a highly regulated product and industry, there is no requirement for any workplace qualification or basic standards for the issuing of a manufacturer's licence. This presents significant barriers to ensuring the safety of the distilling workforce.

The industry is working to address gaps in this important area through various training initiatives, including:

- Partnership with Queensland TAFE to deliver Certificate III in Food Production (Distilling). This program currently has ten apprentices and trainees going through the program.
- Establishing the National Distilling Institute, through grant funding from the Victorian Government. This program now offers a Certificate IV in Artisan Fermented Products (Distilling). An initial cohort of twenty students started this training in March 2024, and will be the first Australian distillers to receive nationally accredited formal training.
- Australian Distillers Association introduction to Safety course – a micro-credential

SCA members, including Archie Rose, have also created bespoke in-house training courses to address training gaps and provide on-the-job skills.

While these initiatives demonstrate pleasing progress toward enhancing the industry's training and capabilities, further support is needed to make these opportunities accessible to the entire Australian distilling workforce.

Recommendation 12:

Provide support to extend the availability of apprenticeships and traineeships to distillers and manufacturers in all Australian states and territories.

Building additional training capabilities in hospitality

The spirits industry supports and collaborates with the hospitality industry, with many SCA members offering bespoke training programs – like Diageo's *Bar Academy,* Beam-Suntory's *The Blend* and Brown-Forman's "*The Art of Jack*" These courses build knowledge and awareness among bartenders and mixologists about how to use their products, educate them on unique product attributes to understand how products are differentiated with in the market and how to ensure a safe and engaging drinking environment.

In spirits tourism destinations, like the Kentucky Bourbon Trail, the industry has benefited from funding to create The Moonshine Academy, a bespoke training program that enables bartenders and mixologists to speak to the provenance and characteristics of local products. As the spirits manufacturing industry in Australia continues to grow, such programs could also enhance distillery door tourism and hospitality in metropolitan and regional settings.

Recommendation 13:

Support programs to upskill and build knowledge of quality Australian-made spirits to create pathways for skilled careers in hospitality, and provide skilled labour to service regional and metropolitan areas.

4.7 Mechanisms for the Australian Government to support further innovation and sustainable growth in the sector

Key Points

Further innovation and sustainable growth of the Australian spirits industry can be achieved through government intervention and support to:

- Achieve greater efficiencies through the excise remission scheme;
- More efficient consultation with industry on key regulatory reforms;
- Develop an industry roadmap; and
- Establish 'Spirits Australia' to simultaneously progress a range of initiatives to support sustainable industry growth.

Enhancing efficiencies in the excise remission scheme

As outlined throughout this submission, the industry is growing and making encouraging progress in toward expanding innovation and economic add. However, there may be possible unintended consequences associated with schemes intended to drive growth and investment.

In 2021, the Morrison Government announced an increase and full remission of excise up to $350,000. The policy was intended to provide relief for small businesses and encourage investment in capital, staff, expansion and brand building.

While the remission has been a game-changer for many small craft distillers, it has disincentivised some businesses from innovating and growing beyond this $350,000 threshold. This has effectively created a ceiling for our developing industry, encouraging most manufacturers to stay small, resulting in a large industry of predominantly smaller operators.

The cost of investment beyond the $350,000 cap to expand or to purchase new equipment is too great to facilitate the efficient scaling of our industry. A growing spirits industry, which is scaled to promote export, can also help to stimulate economic growth in manufacturing, hospitality, tourism and agriculture as businesses expand to meet increased demand for their services.

Deloitte's (2024) analysis shows that seven in ten domestic manufacturers have remained below the excise remission threshold. We are concerned that Government policy is directly responsible for stifling growth because the step change in the variable cost of production is significant. A review against the policy intent of this initiative could enhance efficiency and unlock opportunities for a new phase of sustainable industry growth.

Recommendation 14:

Review the operation and effectiveness of the *Excise Remission Scheme for Manufacturers of Alcoholic Beverages* and report to government whether the scheme continues to be fit for purpose.

Improving engagement with industry

Australia's spirits industry operates within a highly regulated framework, ensuring consumer safety and industry integrity. We collaborate with Government on a range of regulatory reviews and consultations impacting our industry.

However, our participation in these reviews could be enhanced through greater coordination among government agencies to ensure that sufficient time is provided to enable meaningful consultation. Additionally, the timely completion of government reviews and consultations can provide greater certainty to spirits manufacturers.

There are a range of recent examples of inefficient consultations with industry including:

- Food Standards Australia and New Zealand (FSANZ) Act Review – commenced in 2018 and is yet to be finalised;
- FSANZ P1059 proposal on energy labelling and P1049 on added sugar labelling – both proposals are yet to be finalised; and
- Treasury consultation on exposure drafts of legislation and regulation for 'Streamlining Excise Administration – licencing and regulation reforms' – allowing only eight business days to provide feedback.

A potential solution would be for the Office of Impact Analysis and the Australian Government Guide to Policy Impact Analysis to ensure there is genuine and timely intergovernmental engagement and consultation before initiating industry or public consultation.

A more coordinated approach to industry consultation and implementation of new initiatives will help to minimise the costly and disruptive impact on businesses, while ensuring businesses can adapt to change without compromising product integrity and growth.

Recommendation 15:

Develop a best practice approach to consultation and implementation of government policies and reforms impacting the Australian spirits industry to ensure sufficient industry engagement and alignment.

Developing a spirits industry roadmap

There is currently an absence of any defined growth strategy for the Australian spirits manufacturing industry at a federal level.

State governments have in several cases stepped into the void. Most notably, the Victorian Government's $20 million *Distillery Door Program* seeks to support and enhance Victoria's distilling industry by allocating funds under four streams: Skills Development, Boosting the Visitor Economy, Infrastructure and Safety and Export Capability.

Other programs of note include *South Australia's Spirits Boom – Industry Blueprint,* created by Distillers South Australia with support from the South Australian Government, and the *Tasmanian Distilled Spirits Industry Blueprint*, created by the Tasmanian Whisky and Spirits Association with the Tasmanian Government's backing.

The latter blueprint aligns with the Tasmanian Trade Strategy 2019-2025, including the goal to grow Tasmania's trade to $15 billion by the year 2050.

Manufacturers in these states have benefited significantly from the deployment of their governments' vision and resources to the spirits industry.

However, this state-based piecemeal approach falls well short of what is necessary to fulfil the industry's economic potential.

A national industry roadmap is vital to define the future of spirits made in Australia and empower the industry to help the government achieve its economic goals for domestic manufacturing.

Such a roadmap may include:

- A targeted compound annual growth rate and overall economic growth objective;
- Targets to grow the industry's contribution to tourism
- The identification of key export markets with associated targets;
- A timeline to achieve net zero emissions and other sustainability targets;
- Diversity goals; and
- Safety and training objectives.

Recommendation 16:

Provide support to develop an industry roadmap to ensure the sustainable growth and development of the Australian spirits industry.

Establishing 'Spirits Australia'

The establishment of a spirits industry body similar to Wine Australia would assist in progressing many of the recommendations made in this submission.

Wine Australia has played an important role in growing the Australian wine industry by fostering a strong partnership between industry and government to meet common objectives.

Establishing Spirits Australia for the spirits industry would allow government and industry to work hand-in-hand in growing the spirits industry, while meeting government objectives.

A similar model was implemented in Japan, where the Japan External Trade Organisation helped spirits grow more than sixfold between 2013 and 2023.

Spirits Australia could be set up as a standalone statutory body and would be dedicated to promoting Australian spirits.

Responsibilities for Spirits Australia could include, but are not limited to:

- fostering and supporting the growth of profitable, resilient and sustainable Australian distillers;
- encouraging research and innovation within the sector;
- building markets, disseminating market information and knowledge;
- growing industry networks domestically and internationally; and
- encouraging adoption and ensuring compliance of quality and safety standards within the industry.

These responsibilities would build upon Wine Australia's current model. However, this model should be refined through close consultation with industry and government.

Consultation with industry identified a strong appetite for Spirits Australia, which can provide tailored advice for exporting and promoting spirits for the industry, both domestically and internationally.

Reinvesting in the spirits industry through Spirits Australia would generate significant value for both the industry and government and help set up a similar growth story to the Australian wine industry.

As an example, less than 86 cents from every $100 of spirits excise tax would be equivalent to Wine Australia's annual revenue in FY23.

Mandala's report (2024) confirms the establishment of a body such as Spirits Australia could enable the Australian spirits industry to be a $1 billion exporter by 2035.

Recommendation 17:

Establish 'Spirits Australia' to simultaneously progress recommendations that support expanding innovation and value-adding in spirits manufacturing.

5. CONCLUSION

A growth industry with vast potential

Australia is strongly equipped to compete in all the major spirits categories globally given our ready access to the highest quality, locally grown ingredients, and the country's established reputation for making 'clean and green' food and beverage products.

As this submission details, with proactive and enabling interventions by the Federal Government, Australia can diversify its exports of high-quality beverages in addition to wine to create a spirits export industry worth one billion dollars by 2035.

Capitalising on our natural advantages, the industry currently competes for a growing market of domestic and international consumers that enjoy the responsible and moderate consumption of spirits as part of a healthy and sociable lifestyle.

Increased demand for spirits among Australian consumers is supported by important changes to Australia's drinking habits, which have evolved over many years.

Alcohol consumption in Australia is currently at a 50-year low, and spirits is the only alcohol category that continues to grow.

Data reflects the fact that consumers have moderated their alcohol consumption and are opting for more premium drinks and experiences, as evidenced by the resurgence of cocktails and small bar offerings.

In fact, spirits are trending globally as the alcohol beverage of choice for enjoyment, socialising and relaxation.

The economic value of this trend is enhanced by the growth in tourism at distillery doors, which has increased 351 per cent on levels reported in 2018 to 3.5 million visits in 2023, generating $58 million in revenue. This reflects increased consumer interest in artisanal, local products and consumers' willingness to spend money on unique experiences to understand the provenance and stories behind the products they consume, despite current cost of living pressures.

While the industry has enjoyed rapid growth in recent years – from 28 distilleries in 2014 to over 700 in 2024 – increasingly, the government's outdated policy settlings and inaction has placed Australian-made spirits at a significant competitive disadvantage in our home market and abroad.

In part, this has been driven by a lack of data and research on the spirits manufacturing workforce and its contribution to the Australian economy. Through better collection of this information, government can enhance its understanding of the industry beyond its capacity to help achieve decarbonisation targets, and its contribution to consolidated revenue through the collection of spirits excise duties.

In practice, realising the potential of the Australian spirits industry will take fervent belief in our capacity to contribute to a future made in Australia, investment, and expedited action to assure our success.

Our future success relies on Federal Government action

> *"We cannot afford another decade where government is a drag on business investment and productivity instead of a driver of it."*
>
> *Anthony Albanese, Prime Minister*

A vibrant and productive spirits industry can help showcase Australia to the world, promoting growth in domestic manufacturing, increasing trade and employment, supporting innovation and technology, and helping the growth of regional industry.

The industry has an outstanding story to tell, not just about producing unique, high-quality Australian produce, but also making a huge contribution to economic growth, inbound investment, sustainability and creating skilled and well-paid jobs.

While our colleagues in Australian wine reap the benefits of decades of support and investment, Australian spirits manufacturers are trying to create more Australian jobs and trade without any comparable help.

As some States and Territories have moved to fill the void of Commonwealth inaction, the spirits industry becomes more fractious, as it is simply more profitable and easier to do business in some jurisdictions than in others. However, the challenges faced by the spirits industry and the opportunities for growth can only be attained through national policy settings.

The structural disadvantages between alcohol categories, borne of vastly different levels of taxation and industry support, further impede innovation and entrench our competitive disadvantage, thwarting our ability to win at home and away.

And if we cannot win at home, how can we possibly export our unique Australian products to the world?

Unfortunately, Australia's strategic allies and key trading partners in Asia, the United Kingdom, Europe and the United States are far further ahead than us.

Governments in these markets have acted decisively in investing in their spirits industries and, as a result, have reaped the rewards for their vision and action.

There is still an opportunity for Australia to not only replicate this success, but to fast-track it and dominate the race to win new consumers abroad through exporting high quality produce.

For that to happen, the Australian Government must act decisively, and across multiple fronts, to seize the opportunity.

A recent report by Mandala Partners shows that with the right policy interventions and support, Australian spirits manufacturing could grow to be a $1 billion export industry by 2035.

Mandala's modelling relies on the assumption that government recognises the industry's potential and acts decisively to remove barriers impeding growth and scale, whilst simultaneously pursuing strategies to promote market access for Australian-manufactured spirits.

Just as previous national governments recognised the potential of the Australian wine industry to become an export powerhouse, with the right structural and policy changes relevant to contemporary markets and consumer preferences, spirits can tread the same path.

By adopting our sensible and achievable recommendations, you will unleash the potential of a *Future Made in Australia* by enabling innovation and added value in the spirits manufacturing industry.

Spirits & Cocktails Australia and our members look forward to working with the House Standing Committee on Industry Science and Resources to build an understanding of how our industry can enhance value-add and innovation in Australian beverage manufacturing, while assisting the Government to achieve its vision of a future made in Australia.

We welcome the opportunity to appear at public hearings and to escort the Committee on site visits, as it considers the evidence received from contributors to the Inquiry.

6. REFERENCE LIST

1. Australian Institute of Health and Welfare (2023), National Drug Strategy Household Survey 2022-23, available: <https://www.aihw.gov.au/getmedia/b8b298cc-6d3f-4ab0-a238-9bd63f300c09/national-drug-strategy-household-survey-2022-2023.pdf>

2. Deloitte 2022, ‘Mobile Nation 2022: 5G Unleashed’, available: <https://www.deloitte.com/au/en/services/economics/perspectives/mobile-nation.html>

3. Deloitte Access Economics 2024, ‘Economic contribution of the spirits industry in Australia’ (see Appendix A).

4. IWSR 2022, ‘Why are agave and whisky winning the US premiumisation race’, available: <https://www.theiwsr.com/why-are-agave-and-whisky-winning-the-us-premiumisation-race/>

5. Mandala 2024, ‘Spirits Industry Sector Competitiveness Plan’ (see Appendix B).

7. CONTACT DETAILS:

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Deloitte.

Economic contribution of the spirits industry in Australia

Spirits and Cocktails Australia

2024

Deloitte Access Economics

Economic contribution of the spirits industry in Australia

The Australian spirits industry supports economic activity both directly through its operations and through purchases from suppliers.

In 2022-23, this economic activity was worth nearly **$15.5 billion** in total value add and supported over 100,000 full-time equivalent (FTE) jobs across Australia, of which approximately **51,300** people are directly employed in the industry.

The Australian spirits industry supply chain is made up of four stages, starting with approximately **700** spirit manufacturers that produce **366 million litres** of finished product within Australia, attracting **3.5 million patrons** to their distillery doors in FY23.

The Australian spirits industry supply chain

Spirits manufacturers
over 5,700 direct FTE jobs

Liquor wholesalers
over 1,900 direct FTE jobs

Retail
over 9,500 direct FTE jobs

Hospitality
over 34,000 direct FTE jobs

Key industry findings

A growing industry
700 spirits manufacturers currently operating, up from 200 in FY19

Local manufacturing
366 million litres of finished product manufactured in Australia

Patronage
3.5 million visits by patrons to distillery doors in FY23

Exports
Exports of spirits increased 69% over the decade to reach nearly $112 million in FY23

Industry outlook

Strong growth is expected for the spirits industry with:

69% of spirits manufacturers expecting revenue to increase in FY24

Revenue is expected to increase by **10% on average in FY24**

Capital investment is expected to rise by 2.3% in FY24, with 30% of spirits manufacturers expecting their capital expenditure to increase.

Barriers to growth

1. **Excise tax burden**
2. **Inflation and rising costs of inputs**
3. **Economic uncertainty**
4. **Difficulty growing in existing market**

Economic contribution of the spirits industry in Australia

The spirits industry makes an important economic contribution in every state and territory across Australia.

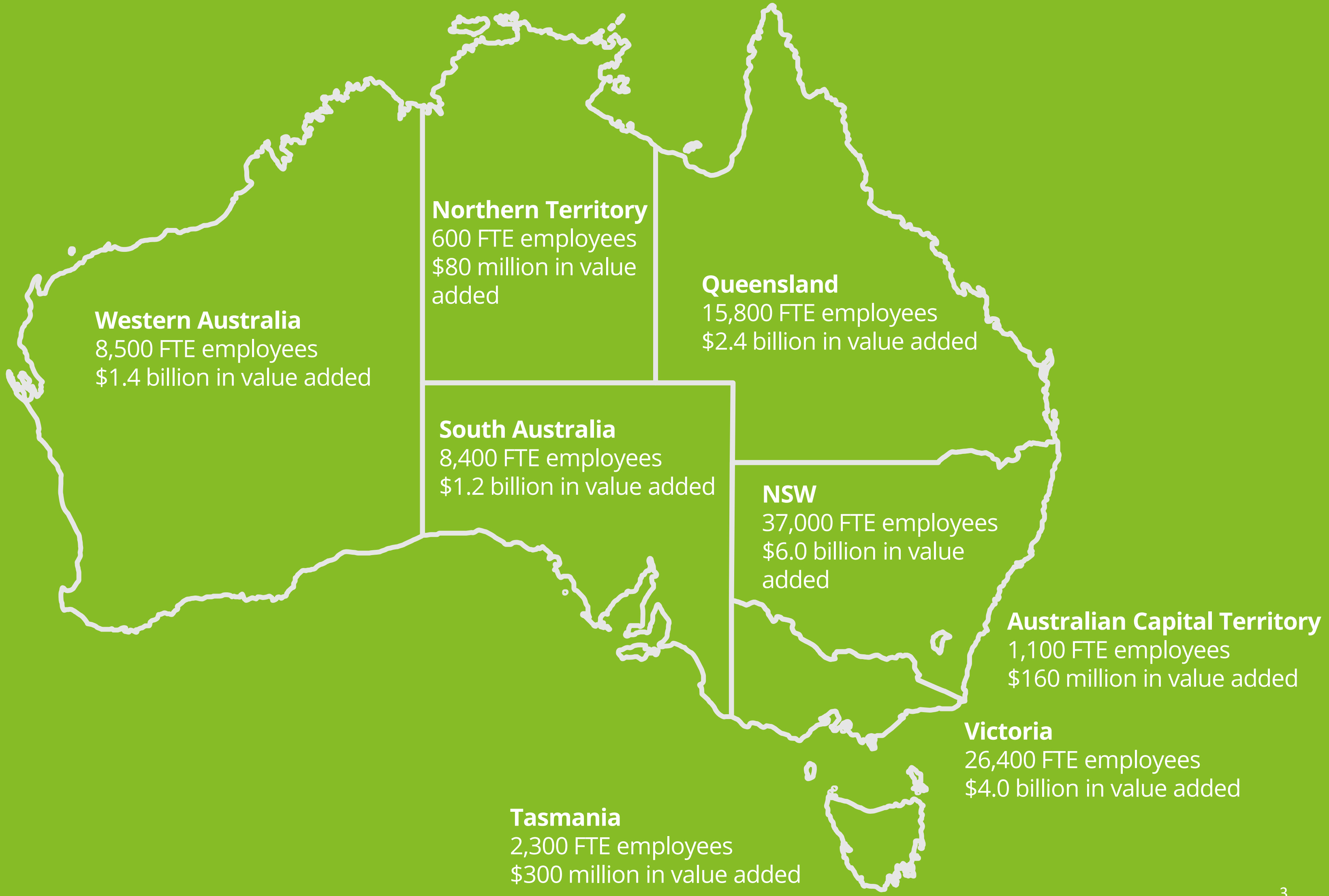
The map presents the total economic contribution of the four stages of the supply chain for the respective state or territory.

The total economic contribution estimates of value add and employment include both the direct contributions from the spirits industry and the indirect value added from purchases made to supplying industries.

The eastern states of New South Wales, Victoria and Queensland collectively account for approximately 80% of the total activity from the spirits industry in terms of value add and employment.

Following this, the states of Western Australia and South Australia also make up a significant proportion of the value add of the spirits industry, making up almost one-fifth (17%) of value add collectively.

Total economic contribution of the spirits industry, by state and territory



EXECUTIVE SUMMARY

Snapshot of spirits industry

In recent years, the spirits industry in Australia has experienced strong growth. Per capita consumption of spirits and RTDs in Australia increased by 0.6% each year on average between FY10 and FY20, according to the Australian Institute of Health and Welfare (AIHW).[1] In response to rising underlying demand, there has been **strong growth in the number of spirits manufacturers across Australia, increasing from about 200 in FY19 to 700 according to Spirits and Cocktails Australia and the Australian Distillers Association.[2]**

Spirits manufacturers are part of the broader spirits industry that also includes wholesaling, retailing and hospitality. Together, these four components make important contributions to the spirits industry supply chain within Australia.

To better understand the contribution of the spirits industry to the Australian economy, Spirits and Cocktails Australia has commissioned this report to provide a snapshot of the industry in FY23, focusing particularly on the role of spirits manufacturers as well as the economic contribution of the broader spirits industry. This research updates previous industry analysis undertaken by Deloitte Access Economics for Spirits and Cocktails Australia in 2021.

To inform the analysis, Deloitte Access Economics updated and fielded a survey ('Spirits Industry Survey') of spirits manufacturers and a small number of wholesalers. The survey was completed by 263 businesses, ranging in business size, location, years in operation and spirits distilled. The primary research was supplemented with publicly available information from the Australian Bureau of Statistics (ABS), Tourism Research Australia and other data sources.

[1] *AIHW 2023, Apparent Consumption of Alcohol, Australia*
[2] *Spirits & Cocktails Australia and Australian Distillers Association, Spirits Manufacturer Database*
[3] *Spirits & Cocktails Australia and Australian Distillers Association 2021, 2022 Pre-Budget Submission: Unleashing the Potential of the Australian Spirits Industry*
^ These figure also includes a small number of wholesalers/distributors.

A significant industry

Modelling undertaken for this report shows the resilience of the industry despite the impact of COVID-19 on the Australian economy.
From data gathered in the Spirits Industry Survey, it is estimated **366 million litres of finished product was manufactured in Australia in FY23**. Finished product includes the entire volume of the product being sold, for example, a bottle of whisky or can of ready-to-drink spirits.

Deloitte Access Economics estimates that **the spirits industry contributed $15.5 billion in economic activity (measured in Gross Value Added (GVA)) to the Australian economy in FY23 and supported over 100,000 full time equivalent (FTE) roles. The spirit industry in FY23 is 16% larger in terms of economic activity compared to the industry in FY19.**

Of this contribution, spirit manufacturers directly contributed $984 million and supported 5,700 FTE employees. Compared to the previous snapshot in FY19, the contribution of spirits manufacturers has increased by 16%. This demonstrates significant resilience considering the impact of COVID-19 on some components of the spirits industry supply chain.

The significance of the Australian spirits industry is also reflected in the high proportion of spirits manufactured locally, with 80% of spirits product sold in Australia made in local distilleries and manufacturing plants according to the Spirits Industry Survey and other estimates.[3]

The spirits industry comprises relatively young businesses with 57% of survey respondents in operation for less than six years. As a result of the large number of new entrants, a large share are small businesses, with **88% employing less than 20 employees**. The Spirits Industry Survey also reveals the important contribution to regional Australia, **with 48% of respondents located outside of capital cities.**

In addition to the large number of small spirits manufacturers, there are a small number of large spirits manufacturers (some of which are internationally owned). This is evident when looking at industry revenue. Just under half (47%) of respondents earned less than $350,000 in revenue, while 46% earned between $350,000 and $10 million and 7% earned more than $10 million in revenue in FY23.^

KEY FIGURES FOR THE SPIRITS INDUSTRY

A growing industry
701 spirits manufacturers operating currently, up from 200 in FY19

Local manufacturing
366 million litres of finished product manufactured in Australia

Economic contribution
Nearly $15.5 billion in economic activity to the Australian economy

Employment
Over 100,000 full time equivalent roles

Supporting regions
48% of spirits manufacturers located in regional areas

EXECUTIVE SUMMARY

Key sources of revenue

The revenue generated by spirits manufacturers comes from a variety of sources. According to the Spirits Industry Survey, spirit manufacturers use three different revenue channels on average.

For smaller manufacturers (less than $1 million in revenue per annum) the most substantial revenue channel is direct to consumer sales (including a distillery door), which makes up 29% of total revenue generated. Sales at events, including farmers markets and festivals, was the second largest source of revenue (15%) for this group.

For larger manufacturers (more than $1 million in revenue), 94% of revenue is generated from distribution, wholesalers and off premise sales.

Given consumers are increasingly looking for and valuing unique experiences, distillery doors play a pivotal role for the spirits industry. Almost two thirds of spirits manufacturers operate a distillery door. Based on the Spirits Industry Survey, these distillery doors had 3.5 million visits from patrons and generated $58 million in revenue in FY23.

The number of distillery doors is set to increase as 80% of spirits manufacturers currently not operating a distillery door indicate they intend to open one at some point, as revealed in the Spirits Industry Survey.

Exports

Australian produced spirits are increasingly being recognised internationally. The value of spirits exports has grown 69% over the last decade (to FY23), equivalent to an average annual growth rate of 5.4%.[3^] The average annual growth rate peaked in the three years period to COVID (FY17-FY19), at 33%, and reached 22.1% average annual growth post covid (FY21-FY23).

Ready To Drink (RTDs) were the most exported type of spirit in FY23, making up 28% of total export value of spirits, followed by brandy and grape spirits (20%) and whisky (13%).

New Zealand is the most important destination for Australian spirits exports, accounting for 37% of total export value in FY23.[4] This represents an increase from five years ago when New Zealand accounted for 25% of export value in FY18. The United States of America is Australia's second largest export destination, accounting for 22% of total export value, followed by China accounting for 12% of export value. China is becoming an increasingly important export market for the local spirits industry, with China only accounting for 2% of export value in FY18.

According to the Spirits Industry Survey **while only 17% of spirits manufacturers currently export, this figure is likely to grow, with 40% interested in exporting.**

Investments

Investment activity is an important measure of industry health. Spirits manufacturing requires significant capital expenditure on specialised equipment to begin operations and expand. **Surveyed spirits manufacturers invested $343 million in FY23.**

The vast majority (over 90%) of capital investment came from larger spirits manufacturers with over $10 million in annual revenue. This is similar to results found in the 2021 industry study.[5]

Capital investment in FY24 is expected to increase, with 30% of respondents anticipating an increase amount invested. If these realised, capital investment will rise to $353 million (a 2.6% increase) from the FY23 level.

The maturation of spirits is another form of investment for the industry. Nearly 42% of spirits manufacturers surveyed have some form of spirits under maturation in Australia in FY23. These manufacturers have 61 million litres of spirits under maturation, comprising 72% rum and 27% whisky.

[3] *ABS, International merchandise exports, Australia.*
^ *Figures reported from the ABS exclude 'foreign re-exports'.*
[4] *ABS, International merchandise exports, Australia.*
5 Spirits & Cocktails Australia and Australian Distillers Association 2022 Pre-Budget Submission: Unleashing the Potential of the Australian Spirits Industry

KEY FIGURES FOR THE SPIRITS INDUSTRY

Patronage

3.5 million visits by patrons to distillery doors in FY23

Exports

Exports of spirits increasing 69% over the decade to reach nearly $112 million in FY23

Investment

$343 million in capital investment in FY23 with 30% of businesses expecting to increase investment in FY24.

Maturation

61 million litres of spirits under maturation in FY23.

EXECUTIVE SUMMARY

Outlook for the spirits industry

Throughout 2023 the cost-of-living crisis in Australia has constrained consumer spending, though population growth has mitigated some the impact of this. These challenging macroeconomic conditions have reduced consumer demand for discretionary spending for items like spirits.

Despite the challenging macroeconomic environment, according to the Spirits Industry Survey **over two thirds of spirits manufacturers expect revenue growth in FY24, with the average increase expected being 32% and a median of 10%.**

Generally, spirits manufacturers with higher growth expectations (median of 10%) have less than $1 million in revenue. This reflects rapid expansion as they establish operations and build revenue from a low baseline. Businesses that earned over $10 million are anticipating revenue to grow by 5% on average.

Realising the anticipated growth for spirits manufacturers and the broader spirits supply chain will require addressing some barriers facing the industry.

When those surveyed were asked about the impact of potential barriers to business growth and expansion, **excise tax burden and inflation were the two challenges most often selected as having a severe impact (selected by 59% of businesses).**

Of surveyed spirits manufacturers above the excise remission threshold, **87% rated the excise tax burden as having a severe impact compared to 50% of those below the threshold.**

When asked about the specific impact the excise tax burden would have on business operations, over two thirds (67%) reported the excise would have a severe impact on the prices of products.

The other most commonly selected severe impacts were in decisions around revenue streams other than spirits (such as other agricultural products or types of alcohol), indicating the diversifying of businesses beyond spirits products may be impacted by excise tax, and investment in business facilities, with both options being selected by 53% of businesses.

The challenges of the current economic environment are also key barriers to growth. **Inflation and rising costs of inputs are the most common barriers having an impact (slight, moderate or severe) on respondents, affecting 92% overall.** The impact of inflation was higher amongst respondents not expecting revenue growth this year, severely impacting 67% compared to 53% for spirits manufacturers expecting revenue growth.

Future growth of the industry will also rely on access to capital for spirits manufacturers to scale up. While only 3% of businesses have accessed Foreign Direct Investment (FDI) as a source of capital, **77% of spirits manufacturers reported a 20% increase in this source of capital would support additional operational activity.** Over half of all businesses reported it could support increasing the level or production and sales and marketing activity. Smaller spirits manufacturers were more likely to report it could support export activity and distillery doors.

Addressing some of these barriers will increase the likelihood of continued growth in this important industry and help deliver associated benefits from a more diversified and regionally distributed economy.

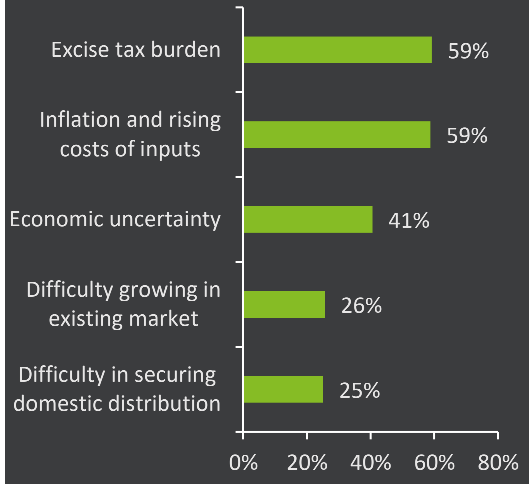
KEY BARRIERS FOR THE SPIRITS INDUSTRY

Excise tax burden

Excise tax burden remains a key barrier to growth and expansion for the industry, particularly larger spirits manufacturers.

Inflation and rising costs of inputs

Inflation and rising costs of inputs is another key barrier to growth and expansion for most spirits manufacturers.



01 INDUSTRY OVERVIEW

02 ECONOMIC CONTRIBUTION

03 WORKFORCE

04 EXPORTS

05 INVESTMENT

06 OUTLOOK

07 APPENDICES

Understanding the importance of the spirits industry.

Spirits and Cocktails Australia commissioned Deloitte Access Economics to undertake an industry analysis, including an economic contribution estimate, of the spirits industry in Australia. This report provides an update on the earlier economic contribution Deloitte Access Economics undertook for Spirits & Cocktails Australia in 2021, which profiled the industry in FY19 before the impact of COVID-19 disruptions were felt.

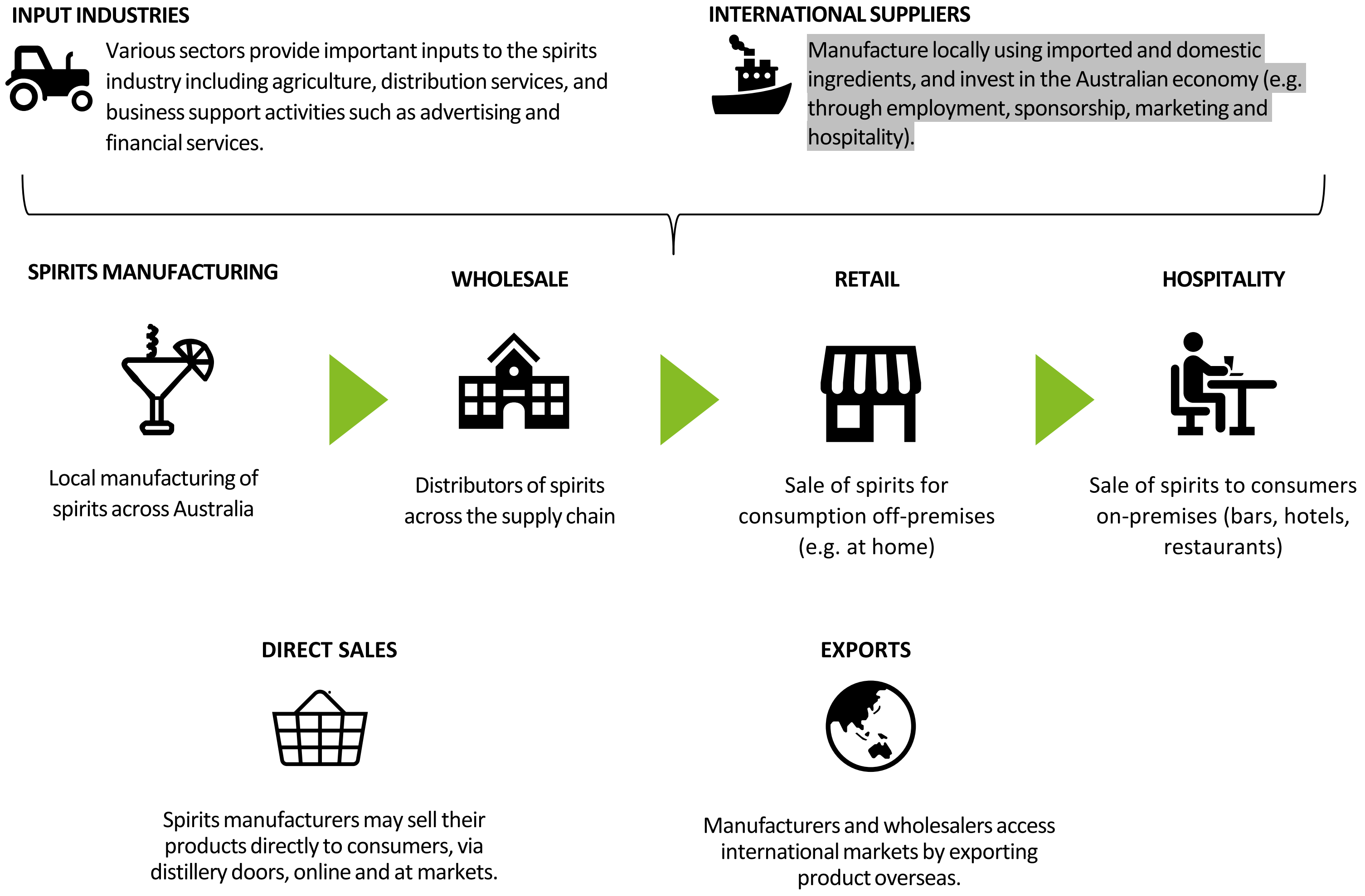
The spirits industry extends beyond spirits manufacturers to include wholesalers, retail and hospitality elements.

To inform this analysis, Deloitte Access Economics updated and fielded a survey of spirits manufacturers and some wholesalers (‘Spirits Industry Survey’). The Spirits Industry Survey was completed by 263 businesses, predominantly spirits manufacturers, ranging in business size, location, years in operation and spirits distilled.

Further detail about the survey is available in Appendix A.

The primary research was supplemented with publicly available information from the Australian Bureau of Statistics (ABS), Tourism Research Australia (TRA), IBISWorld and other data sources.

Figure 1: Overview of the spirits industry supply chain



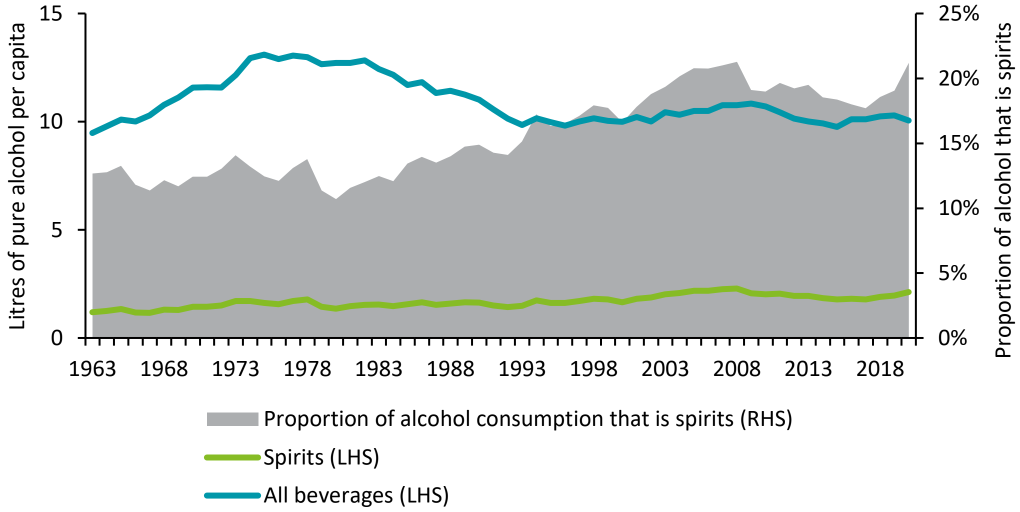
Spirits consumption has experienced faster growth than other alcoholic beverages, with per capita consumption increasing by 0.6% per annum over the decade.

In FY20, Australians consumed an equivalent of 10 litres per capita of pure alcohol across all beverages, of which 21% (2.1 litres of pure alcohol) was spirits according to AIHW (see Chart 1).[1,a] Overall, the average Australian consumes 2.08 standard drinks per day of pure alcohol and 0.4 standard drinks per day of spirits and RTDs.[2]

Between FY10 and FY20, per capita alcohol consumption decreased by 6.1%, indicating that Australians individually are consuming less alcohol.[3] In FY20, spirits were the only type of alcohol where per capita consumption increased (+8.7%) while per capita consumption of beer, wine and cider all declined. Declining per capita alcohol consumption has been primarily driven by a decrease in the consumption of beer, which decreased by 2.6% per annum on average between FY10 and FY20. Meanwhile, per capita consumption of spirits – including ready to drink beverages (RTDs) – increased by 0.6% per annum on average between FY10 and FY20.[4]

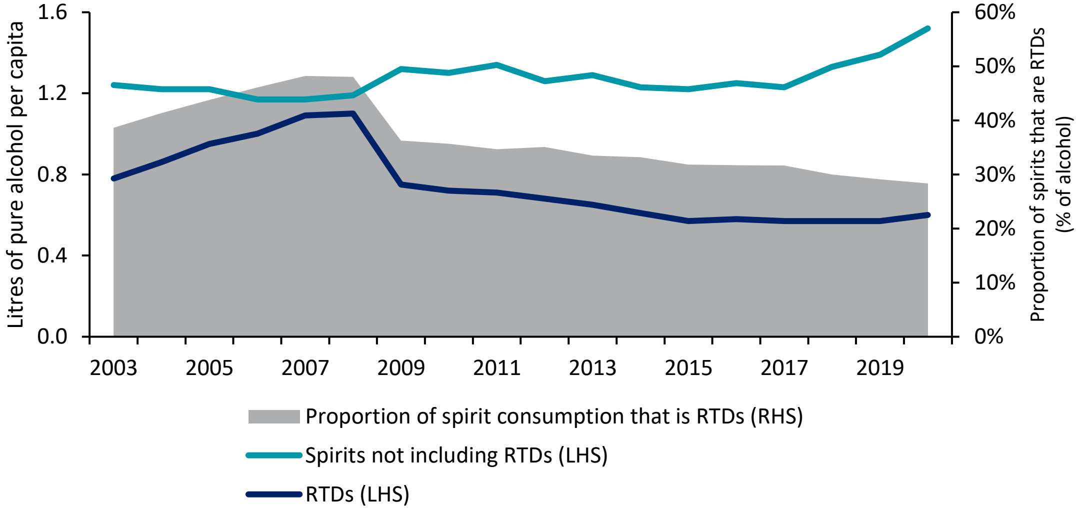
RTD's share of consumption of spirits peaked in FY08 at almost 50%, following which it declined to less than 30% in FY20 (see Chart 2). Consumption of RTDs thereafter remained stable at around 0.6 litres per capita on average, while consumption of other spirits increased to 1.3 litres per capita on average in the 10 years to FY20.[5]

Chart 1: Consumption of spirits and all alcohol over time



Source: AIHW Apparent Consumption of Alcohol, Australia

Chart 2: Consumption of spirits against RTDs



Source: AIHW Apparent Consumption of Alcohol, Australia

[1] AIHW 2023, Apparent Consumption of Alcohol, Australia: 1944-45 to 2019-20
[a] Per capita refers to persons 15 and over, per AIHW usage
[2] Australian Bureau of Statistics 2019, Apparent Consumption of Alcohol, Australia, September 2019
[3] AIHW 2023, Apparent Consumption of Alcohol, Australia: 1944-45 to 2019-20
[4] Ibid
[5] Ibid

More than 58% of survey respondents have been operating for less than six years, reflecting a fast-growing industry.

The 700 spirits manufacturers currently operating in Australia have a footprint in every state and territory, with just under half (48%) of having headquarters or main operations in Victoria and New South Wales, according to the Spirits and Cocktails and Australian Distillers Association database.

The spirits industry makes an important contribution to regional Australia, with 48% of surveyed businesses located outside capital cities. In fact, 50% of Queensland survey respondents are located in regional areas, while New South Wales (45%) and Victoria (42%) have similarly high shares of spirits manufacturers located in regional areas.

The spirits industry is fast-growing with 58% of surveyed spirits manufacturers and wholesalers/distributors in operation for less than six years (see Figure 2), for which 11% report being in operations for less than one year.

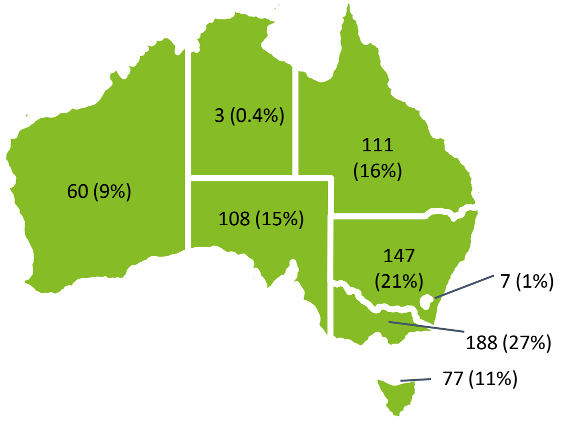
The industry is composed of mainly small businesses and a few large businesses (generally internationally owned), with 88% of respondents employing less than 20 employees. Only 3% of respondents employing over 100 people.

In terms of revenue, 47% of survey respondents earn less than $350,000 per annum. The industry has a high concentration of revenue, with 94% of industry revenue generated by the ten largest spirits manufacturers in FY23.

The survey found a high correlation between number of employees, annual revenue and years in operation – those with larger annual revenues also tend to employ more people and have been in operation longer.

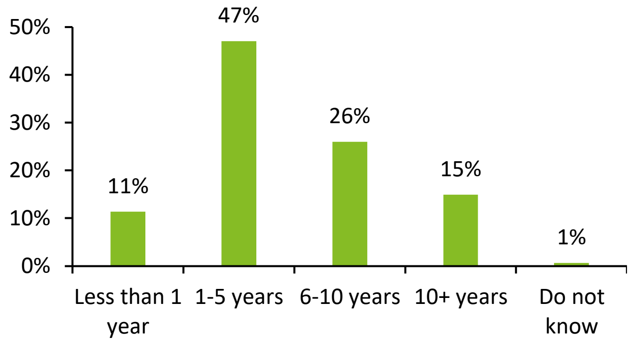
Figure 2. Profile of spirits manufacturers and wholesalers/distributors

Headquarters by jurisdiction (% of national)



Source: Spirits and Cocktails Australia and Australian Distillers Association, Spirits Manufactures Database

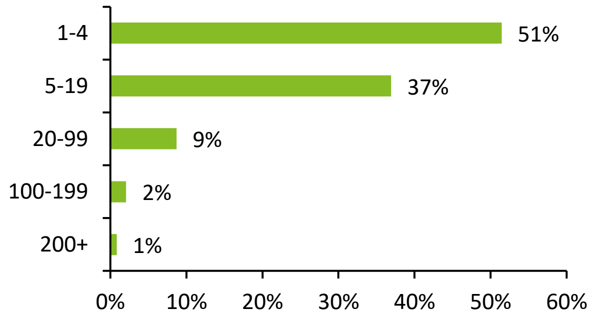
Years in operation



Question: How many years has your business been in operation?

Source: Spirits Industry Survey, Deloitte Access Economics (n=308)

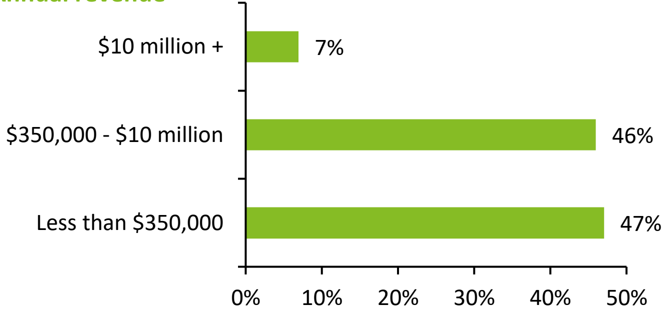
Number of employees



Question: How many staff does your business employ?

Source: Spirits Industry Survey, Deloitte Access Economics (n=241)

Annual revenue



Question: What was your business revenue from sales related to spirits and other distilled products for 2021-22?

Source: Spirits Industry Survey, Deloitte Access Economics (n=187)

Two thirds of distilleries have a distillery door, with 3.5 million visits from patrons last year.

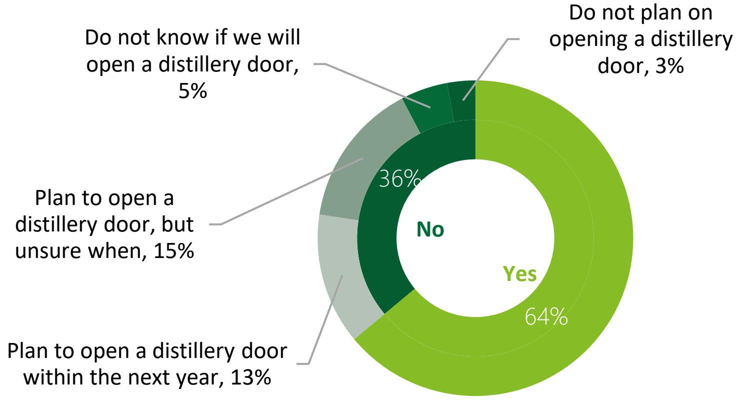
Australia has a flourishing craft spirits scene spurred on by strong growth in gin and whisky production and consumption.[6] Distillery doors play a pivotal role for the spirits industry in Australia, given consumers are increasingly looking for and valuing unique experiences like those provided at distillery doors.[7] Reflecting these trends, a large proportion of distilleries (64%) operate a distillery door (seen Chart 3). For those distilleries currently not operating a distillery door, 80% intend to open one at some point, with roughly half of these businesses planning to open a distillery door in the next year.

Victoria has the highest proportion of distillery doors, with one-third of all distillery doors located in the state, followed by New South Wales, where almost one-quarter of distillery doors are located (see Figure 3). Victorian distilleries also show the greatest interest in opening a distillery door over the next year, with 46% of distilleries not currently operating a distillery door intending to open one.

55% of distilleries operating a distillery door are in regional locations, while 45% are in metropolitan areas. There is further interest in opening distillery doors within metropolitan areas, with 64% of distilleries who do not currently have a distillery door planning to open one.

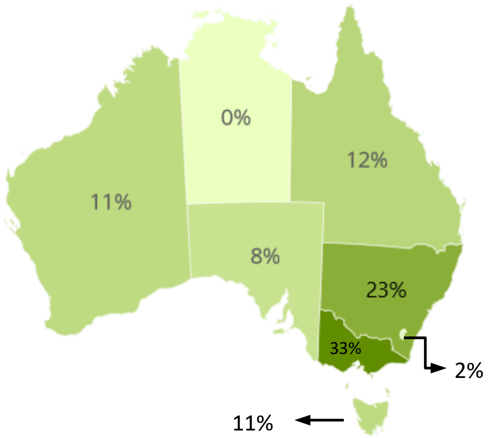
Almost half of distilleries (47%) reported less than 5,000 patrons at their distillery door over the past 12 months while almost a quarter reported 5,000 to 14,999 patrons (see Chart 4). Based on survey responses and imputing the share of distilleries with a distillery door and the median number of patrons, it is estimated that 3.5 million people visited distillery doors in FY23.[b]

Chart 3: Do you have a distillery door?



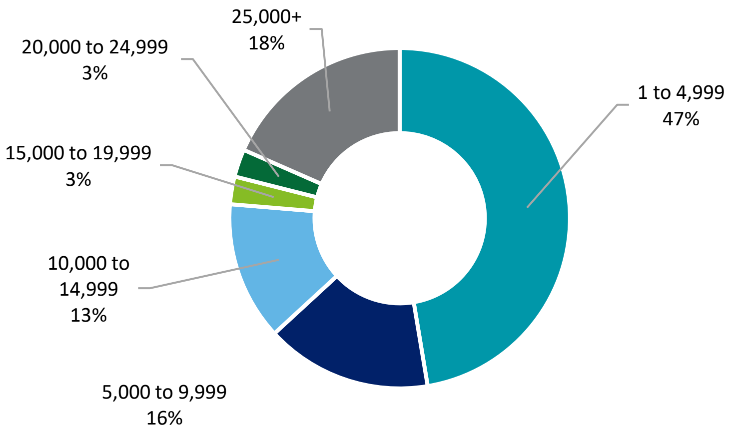
Source: Spirits Industry Survey, Deloitte Access Economics (n=206) Questions: Do you have a distillery door? Do you plan to open a distillery door?

Figure 3: Distillery door locations



Source: Spirits Industry Survey, Deloitte Access Econor Question: Do you have a distillery door?

Chart 4: Distillery door visits over the past 12 months



Source: Spirits Industry Survey, Deloitte Access Economics (n=76) Question: How many people visited your distillery door in the past 12 months?

[6] *IBISWorld 2023, Spirit Manufacturing in Australia*
[7] *CommBank iQ 2023, Cost of Living Insights Report*
b. The number of visits to distillery doors was estimated by aggregating the number of visits from survey respondents and using the median number of visits (5,000) to the proportion of distillers who had not completed the survey that could be expected to operate with a distillery door based on the assumption the share (64%) of businesses in the survey operating with a distillery door is representative of the industry more broadly.

Visitation to distilleries by domestic visitors has rebounded strongly post-pandemic, with Victoria recording the largest number of visitors to distillery doors in FY23.

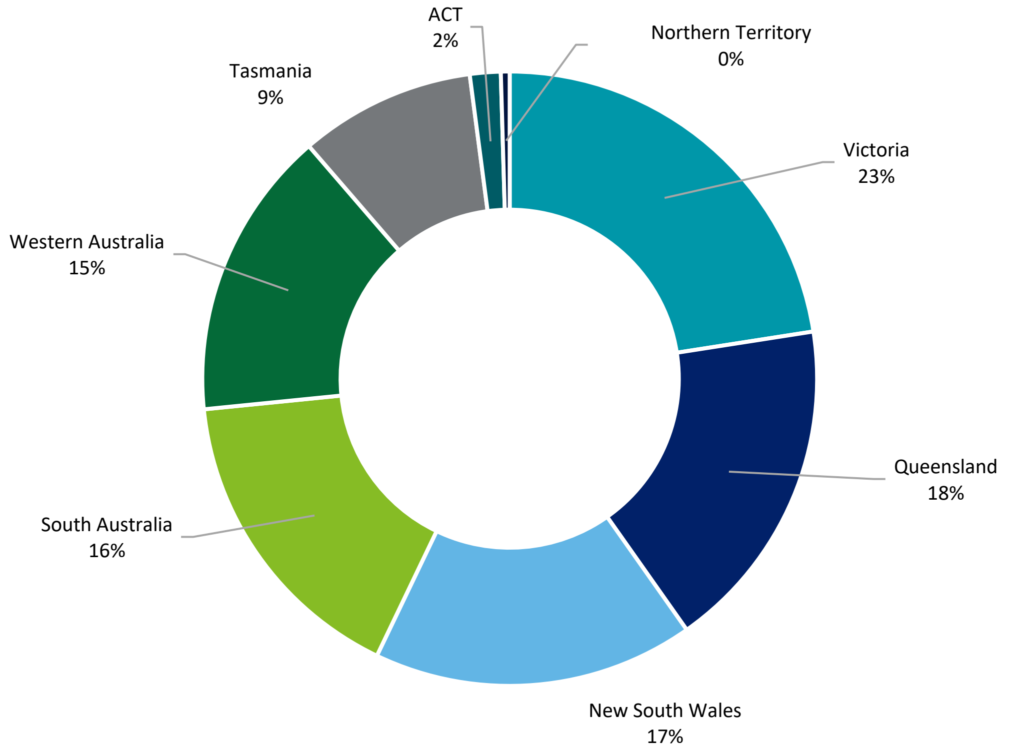
Tourism is a major contributor to the Australian economy, making up 2.5% of the country's Gross Domestic Product (GDP) in FY23.[8] Throughout FY23, the tourism industry saw a strong recovery from the impacts of the COVID-19 pandemic with total visitor expenditure in Australia reaching $164.5 billion, up 8% on FY19.[9] Food and drinks form an important part of Australia's visitor expenditure, comprising 12% or $19.2 billion, of total expenditure in FY23.[10]

There were approximately 1.05 million domestic and international visitors to distilleries in Australia in FY23, according to Tourism Research Australia (TRA).[11,c]

Visits to distilleries in FY23 for domestic visitors increased by 351% compared to visits in FY18. This increase reflects growing interest in artisanal, local products, including craft spirits, and consumers continuing to splurge on unique experiences, despite cost-of-living challenges.[12,13.]

Victoria had the highest share of domestic visits to distilleries in FY23, with almost one-quarter (23%) of Australia's domestic distillery visits taking place in Victoria over the past year. Queensland (18%) and NSW (17%) had the next highest shares of visits in FY23, as seen in Chart 5.

Chart 5: Domestic visits to distilleries, Australia, FY23



Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023

[8] Australian Bureau of Statistics 2023, Australian National Accounts: Tourism Satellite Account, 2022-23, December 2023
[9] Ibid
[10] Ibid
[11] Tourism Research Australia 2023, National and International Visitor Survey
[c] Note that TRA data uses the term 'distilleries' and this may differ from the self-identification undertaken in the Deloitte survey (e.g. spirits manufacturers, distributors, wholesalers) . Therefore, there may be a difference in what Deloitte and TRA classify as a distillery when referring to tourism.
[12] The Shout 2023, A Golden Era for Australian Spirits
[13] National Australia Bank 2023, NAB Consumer Sentiment Survey Q3-2023

Strong growth in domestic visits to distilleries in Queensland and Western Australia.

Australian distilleries have seen a considerable increases in domestic visits over the past five years, reaching 850,000 in FY23 up from 192,000 in FY18.[d,e] Over the same period, there has been a decline in domestic visitors to distilleries in NSW, from 178,000 at its peak in FY21 to 146,000 in FY23, while Queensland saw the number of domestic visitors to distilleries grow from 147,000 in FY21 to reach 153,000 in FY23.

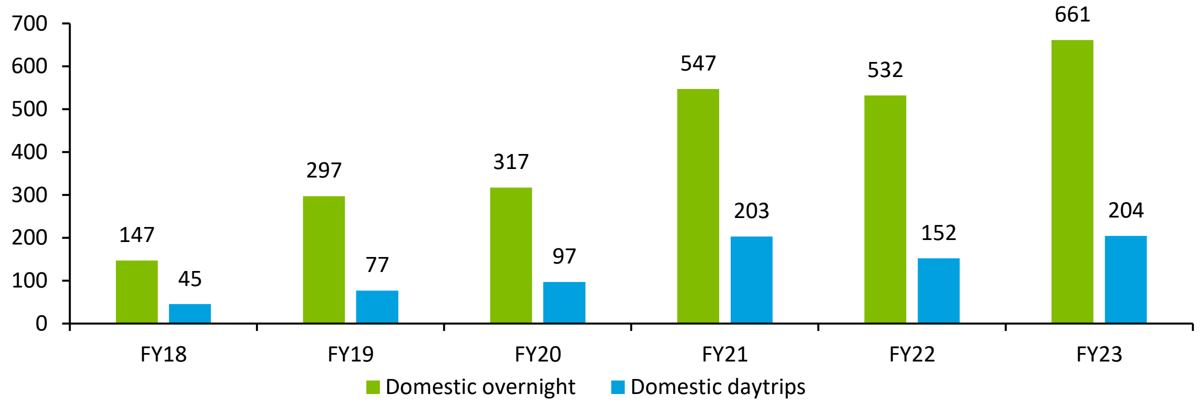
Western Australia has seen the strongest growth in domestic visitors to distilleries, increasing more than fivefold between FY18 and FY23 to reach 132,000 visitors. This reflects growth in the state's distillers and spirits production, seen also with membership of the WA Distillers Guild increasing from 15 to 35 distillers from 2019 to 2022.[14]

In 2022, 76% of visits to distilleries were part of an overnight trip (see Chart 6) reflecting the high proportion of distilleries located in regional areas. For example, visits to distilleries in Victoria are spread throughout the state with the High Country the most popular destination for distillery visits (one quarter of trips), almost a six-hour drive from Melbourne.

Wineries and breweries continue to attract a much larger number of domestic and international visits than distilleries, with over 8.3 million visits to wineries in FY23 compared to 1.0 million for distilleries. Yet there has been strong growth in the visits to distilleries, which are 16% higher in FY23 compared to the 2% decrease in visits to wineries over the past four years.

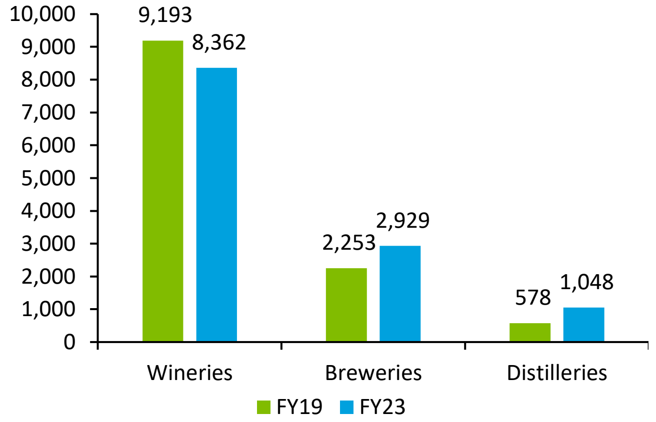
d. Data on visits to distilleries by international tourists from 2018 to 2022 has not been included in this analysis as there is no data available for 2021 and only partial data for 2020 and 2022 to allow for comparisons to domestic tourists over this time period.
e. The estimate of 3.5 million visits to distillery doors by patrons in 2023 is not comparable to Tourism Research Australia (TRA) estimate of 857,000 visits for 2022. Estimates derived from the survey include both local residents and visitors (total patrons) to distillery doors while TRA data includes only visitors who are those who travel more than 50km from their place of residence. The difference in time period is also relevant, given some travel restrictions were still in effect in 2022.
[14]Department of Primary Industries and Regional Development 2022, Western Australian alcoholic spirits: Business opportunity outline

Chart 6: Domestic visits to distilleries (000's), Australia, FY18-FY23



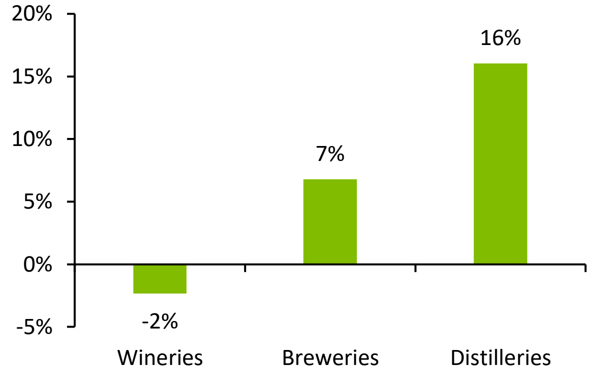
Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023

Chart 7: Total visits to selected venues (000s), Australia, FY19 vs FY23



Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023

Chart 8: Compound annual growth in visits to selected venues, Australia, FY19 vs FY23



Source: Tourism Research Australia, National Visitor Survey, Year ending June 2023

366 million litres of finished product produced in Australia in FY23, with 82% of respondents producing gin.

Spirits manufacturers produced 366 million litres of finished product in Australia throughout FY23, equivalent to more than 146 Olympic-sized swimming pools.[f,15] RTDs, Rum, Vodka and Gin are the most commonly produced products, making up 95.5% of total volume of spirits produced in FY23.

The Spirits Industry Survey found that nearly 80% of spirits sold within Australia are manufactured locally, which is similar to other industry sources.[16] Almost all of the small spirits manufacturers produce their product locally while larger international spirits manufacturers import some of their spirits from overseas.

Based on the Spirits Industry Survey, spirits manufacturers with headquarters in Australia produced 13% of the total amount of spirits sold in Australia in FY23, reflecting the importance of internationally owned businesses in the Australian spirits industry.

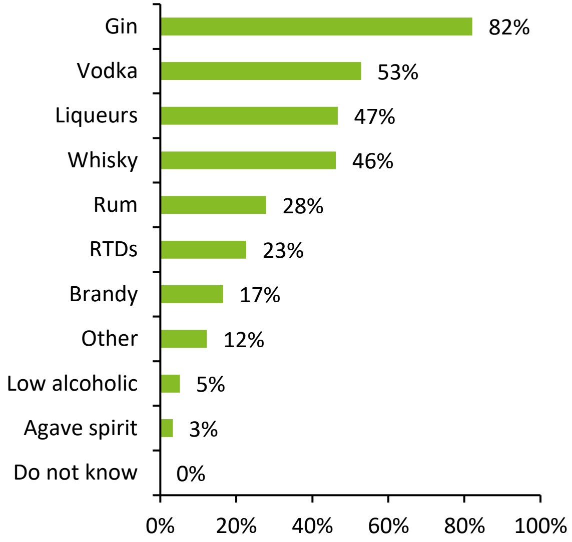
RTDs made up more than 60% of total spirits production volume according to surveyed spirits manufacturers. Rum was the second most commonly produced spirit by volume, accounting for 15% of total volume followed by vodka (13%) and gin (6%).

Larger spirits manufacturers (more than $10 million in revenue) were significantly more likely to produce larger volumes of RTDs than smaller manufacturers. For larger manufactures RTDs represent 97% of total spirits production (see Chart 10). In comparison, rum, vodka and gin comprise the majority of production for smaller manufacturers.

The majority of spirits manufacturers (83%) produce multiple types of spirits. Almost a quarter of spirits manufacturers – typically larger distillers – produce five or more types of spirits. The number of spirits manufacturers diversifying their production is increasing. The 2021 Deloitte Access Economics' report on the national spirits industry found that approximately 65% of spirits manufacturers produced more than one type of distilled product.

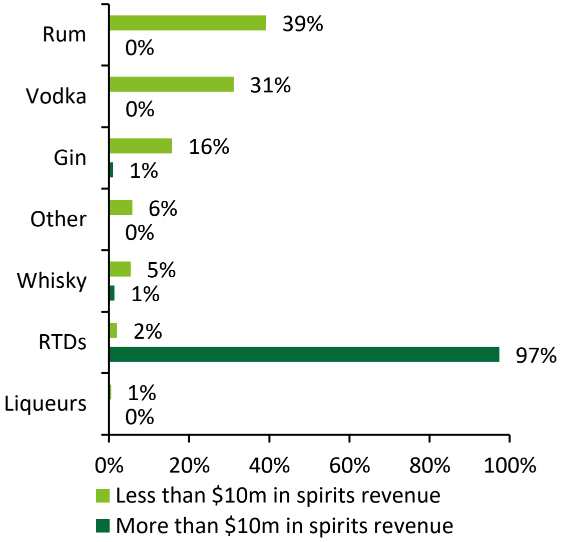
Spirits manufacturers may seek to diversify their product range given consumers' increasing propensity to shift between beverage options, to grow their consumer base, to generate new revenue streams and to experiment with crafting different spirits.[17]

Chart 9: Share of distilleries making each spirit



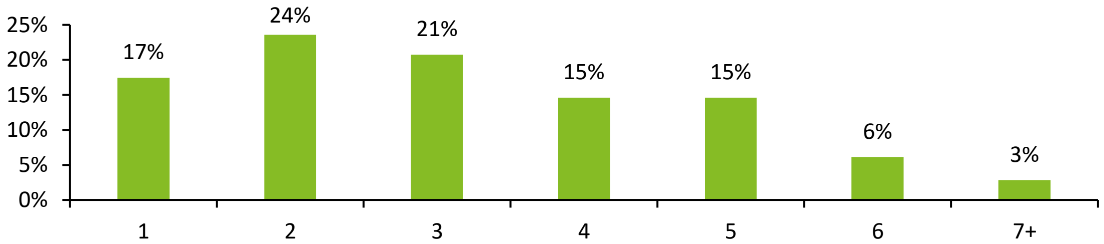
Source: Spirits Industry Survey, Deloitte Access Economics (n=212)
Question: Which of the following spirits and other distilled products does your business produce?

Chart 10: Share of total volume by type of spirit



Source: Spirits Industry Survey, Deloitte Access Economics (n=263)
Question: How many years has your business been in operation?
Note: Volume measured by finished product.

Chart 11: Number of distilled products produced



Source: Spirits Industry Survey, Deloitte Access Economics (n=212) Question: Which of the following spirits and other distilled products does your business produce?

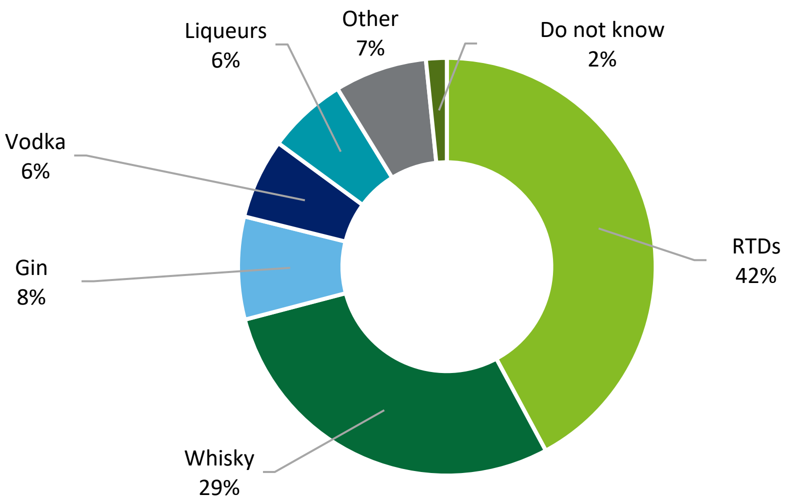
f. Volume produced has been estimated using litres of finished product. Olympic swimming pools contain 2.5 million litres of water.
[15] Bureau of Meteorology n.d., Australia's Water Storage Information
[16]Spirits & Cocktails Australia and Australian Distillers Association 2021, 2022 Pre-Budget Submission: Unleashing the Potential of the Australian Spirits Industry
[17]1919 Distilling 2023, Does diversification help make better spirits.

$3.2 billion in revenue was generated by spirits manufacturers in FY23.

Spirits manufacturers generated $3.2 billion in revenue in FY23. This estimate excludes revenue associated with the alcohol excise. Revenue from RTDs makes up 42% of total revenue for surveyed spirits manufacturers in Australia, while whisky contributed a further 29% of revenue. RTDs make up more than 40% of Australian spirit revenue, despite accounting for less than 30% of consumption (See slide 9).[g]

While locally produced whisky makes up only 2.6% of total spirits produced, it accounted for 29% of total industry revenue in FY23. This was largely driven by the sale of imported premium whisky, with whisky imports worth more than $570 million in FY23.

Chart 12: Revenue of spirits manufacturers by spirit type



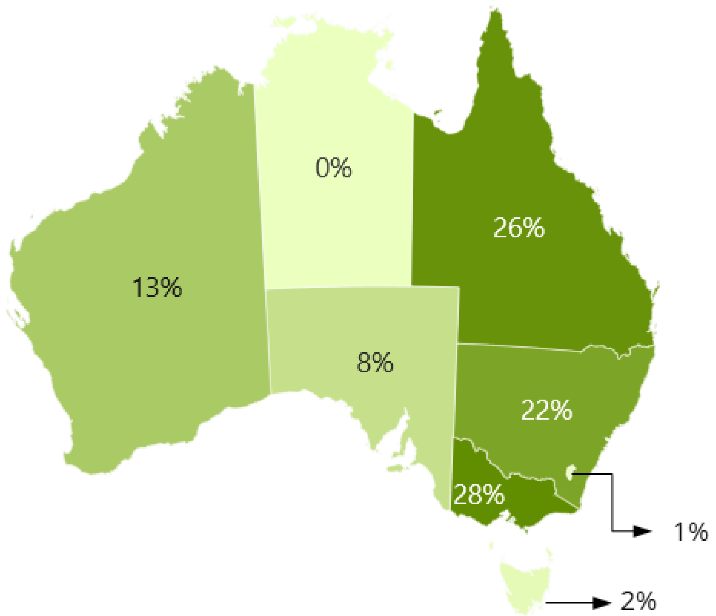
Source: Spirits Industry Survey, Deloitte Access Economics (n=199) Question: What share (%) of annual revenue related to spirits and other distilled products was from the following sources?

g. Brandy, which is an important export good accounting for 20% of export value in FY23 (Slide 22), makes up less than 1% of spirits manufacturers revenue according to the Spirits Industry Survey. This may be due to the sampling of the 59 brandy manufacturers in the survey.

Victoria (28%), Queensland (26%) and New South Wales (22%) collectively represent more than three quarters of revenue. As the three largest states, it would be expected that these have the most revenue, however Victoria and New South Wales had a lower share compared to their national share of population. Queensland, South Australia (8%) and Western Australia (13%) are overrepresented compared to their share of the national population.

Spirits manufacturers located in metropolitan areas had a median revenue double that of manufacturers in regional area ($505,000 in metropolitan areas compared to $241,000 in regional areas) in FY23. This likely reflects the larger spirits manufacturers based in cities and other metropolitan areas across Australia.

Figure 4: Revenue share by geography



Source: Spirits Industry Survey, Deloitte Access Economics (n=216 Question: What share (%) of annual revenue related to spirits and other distilled products was from the following geographic locations?

Direct to consumer sales are a key revenue source for smaller spirits manufacturers while off premise is the most common revenue channel for larger businesses.

Spirits manufacturers have a wide variety of revenue sources. The average spirits manufacturer derives revenue from three of the seven revenue channels presented (see Chart 13).

For spirits manufacturers that generate less than $1 million in revenue, the largest source of revenue is direct to consumer sales (which includes distillery door sales) which makes up over a quarter (29%) of total revenue generated. Sales at events, including farmers markets and festivals, was the second largest source of revenue (16%) for this group.

Among these spirits manufacturers with revenue under $1 million, wholesalers (8%) and distributors (14%) represented a smaller share of revenue generation. This may reflect the difficulty in accessing wholesalers and distributors, which benefit from economies of scale from larger producers.

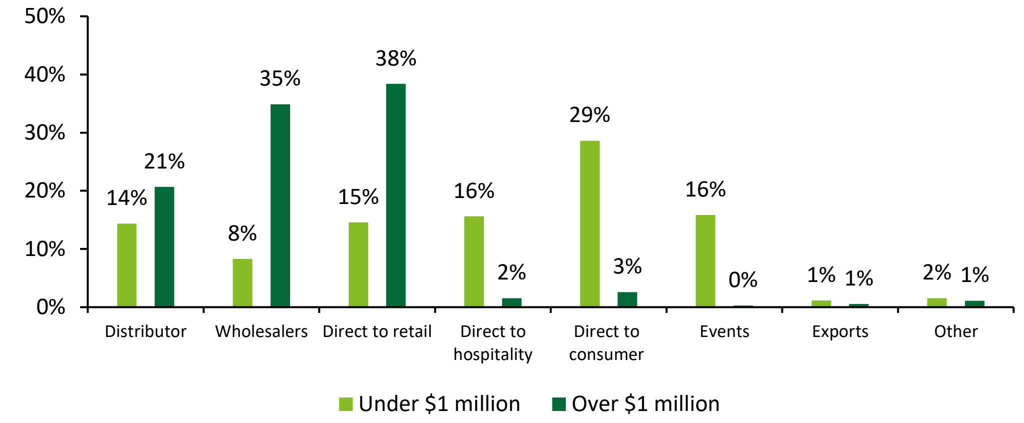
Spirits manufacturers with more than $1 million in revenue per year are more likely to generate revenue from distributors, wholesalers and off premises sales – with 94% of revenue of spirits manufacturers earning more $1 million from these three revenue streams.

With the increase in visitation to distillery doors (as explored earlier in this report), distillery door revenue has become an increasingly important revenue source for all spirits manufacturers and particularly for smaller spirits manufacturers (see Chart 13). Revenue from distillery doors for all spirits manufacturers increased from $31.2 million in FY22 to $45.7 million in FY23. It is estimated the average revenue generated from distillery doors was $750,000 in FY23 – a 15% increase from FY22 ($650,000).

This increase is likely a result of combination of factors – including an increasing number of spirits manufacturers with distillery doors and increasing patronage in FY23 following pandemic-related travel restrictions experienced the prior year. Other factors contributing to the growth were inflation and real spending growth by consumers at the distillery door.

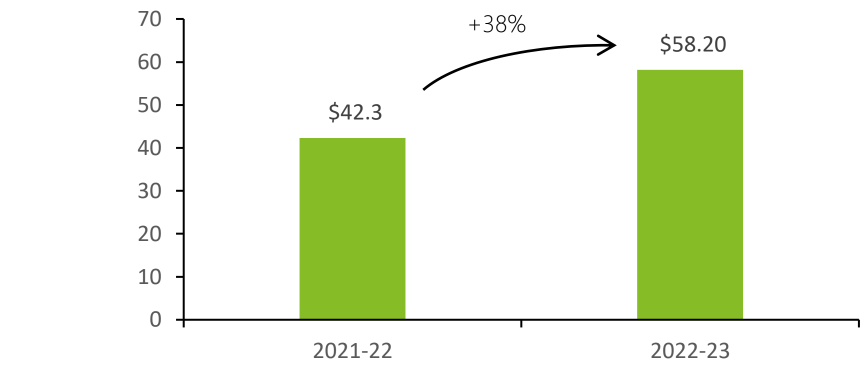
While exports make up a small share of total revenue overall, for the spirits manufacturers that export, on average 10% of revenue comes from exports. Exports are explored in greater detail on page 23.

Chart 13: Sources of revenue for spirits manufacturers, by business size



Source: Spirits Industry Survey, Deloitte Access Economics (n=182) Question: What is your business revenue from sales related to spirits and other distilled products for 2022-23?

Chart 14: Growth in revenue ($ million) between FY22 and FY23



Source: Spirits Industry Survey, Deloitte Access Economics (n=182) Question: What is your business revenue from sales related to spirits and other distilled products for 2022-23?

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ECONOMIC CONTRIBUTION OF THE SPIRITS INDUSTY FY23

$15.5 BILLION

contributed to the Australian economy in 2022-23

$4.7 billion in value add

and

51,300 in FTE employees

in direct contribution

Spirit manufacturers	Liquor wholesalers	Retail	Hospitality
over 5,700 FTE jobs	over 1,900 FTE jobs	over 9,600 FTE jobs	over 34,000 FTE jobs

$10.7 billion in indirect value add

and

48,700 FTE employees

in indirect contribution

- **The spirits industry indirectly contributes to industries such as agriculture, manufacturing and professional services**
- **Every $1 of direct value add from the spirits industry supports another $2.30 throughout the wider economy**
- **Every person employed in the Australian spirits industry supports another person employed elsewhere in the economy.**

The spirits industry contributed $15.5 billion in total value add in FY23, and supported 100,000 FTE roles throughout the economy.

In FY23, the total economic contribution of the spirits industry to the Australian economy was approximately $15.5 billion, measured through value add. In addition, the industry supported nearly 100,000 FTE roles across the country (see Table 1). The industry also paid nearly $3.9 million in production taxes in FY23 with over $3.0 billion related to the excise tax.

This estimate of economic activity includes both direct and indirect economic contributions from the industry. Direct value add captures the main four components of the spirits industry supply chain: spirit manufacturers, wholesaling, retailing and hospitality. The direct operations of the spirits industry contributed over $4.7 billion in value add, and over 51,300 FTEs jobs in the economy.

The spirits industry also contributes to the broader Australian economy through purchases of inputs and other intermediate goods and services. For example, this encompasses anything from the agricultural inputs that feed into spirits distilling to the professional services (such as marketing) utilised by the industry. The value of these purchases is measured through the indirect economic contribution.

The indirect value add by spirit manufacturers totalled $1.6 billion in FY23 (see Table 3).The spirits industry connects into more than 100 different subsectors across the economy, with the top sectors predominantly being professional services which are utilised by spirit manufacturers, wholesalers, retailers and hospitality providers alike.

The economic contribution estimates were based on the Spirits Industry Survey for spirit manufacturers while the estimates of the broader spirits supply chain are based on national estimates of the liquor wholesaling, liquor retailing and hospitality sectors that have been adjusted to account for spirits share and the relative share of for each state. Further details on the methodology used to estimate the economic contribution of the industry are in Appendix B of this report.

Data from survey respondents was supplemented with:

1. The Honourable Jim Chalmers MP Treasurer of the Commonwealth of Australia, *Final Budget Outcome 2022–23*, September 2023
2. IBISworld – Liquor Retailing in Australia, Liquor Wholesaling in Australia, Cafes and Coffee Shops in Australia, Restaurants in Australia, Catering Services in Australia, Pubs, Bars, and Nightclubs in Australia, Clubs (Hospitality) in Australia, Hotels and Resorts in Australia, Motels in Australia, Casino Operation in Australia.

Table 1: Economic contribution of the spirits industry, FY23

	Direct	Indirect	Total
Value add ($ million)	4,700	10,700	**15,500**
Gross operating surplus	1,700	5,100	**6,800**
Labour income	3,000	5,700	**8,700**
Employment (FTE)	51,300	48,700	**100,000**
Labour income per FTE ($)	58,500	117,000	**87,000**

Source: Deloitte Access Economics

Table 2: Economic contribution of spirit manufacturers, FY23

	Direct	Indirect	Total
Value add ($ million)	980	1,600	**2,600**
Gross operating surplus	430	703	**1,100**
Labour income	550	915	**1,465**
Employment (FTE)	5,700	7,200	**12,900**
Labour income per FTE ($)	96,500	127,000	**113,500**

Source: Deloitte Access Economics

Table 3: Breakdown of top 3 indirect value added sectors for spirits manufacturing and spirits industry as a whole ($m) , 2023

Spirits manufacturing		**Whole of spirits industry**	
Professional, scientific and technical services	366 (23%)	Professional Services	1,826 (17%)
Accommodation and Food Services	292 (18%)	Rental, Hiring and Real Estate Services	1,624 (15%)
Transport, postal and warehousing	177 (11%)	Financial and Insurance Services	1,078 (10%)

Source: Deloitte Access Economics

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There is greater gender balance among spirits manufacturers than among other beverage types.

Women make up 41% of the spirits workforce, according to the Spirit Industry Survey.[a] This is roughly in line with the proportion of women in distilleries (44%), according to the ABS (see Chart 15). This in contrast to the heavily male-dominated workforces in breweries and wineries, with males comprising 90% and 80% of these workforces, respectively. These findings indicate that the spirits workforce has much greater gender diversity than is seen in other parts of the alcoholic beverage industry.

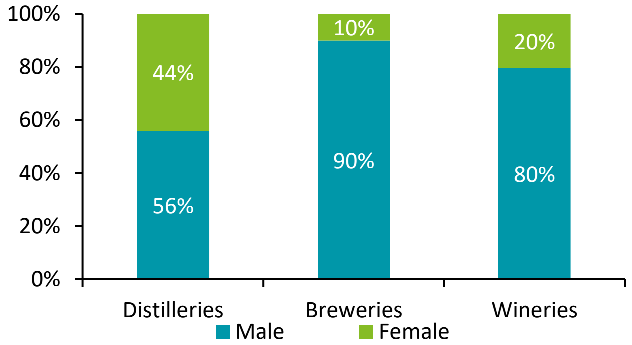
Full time workers make up 56% of the workforce of those surveyed, while a third of the workforce is employed casually and 11% are employed part-time (see Chart 16). This compares to Australia's workforce, where 71% of workers are employed full time and 29% part time or casually.[1]

Women are overrepresented in part-time and casual employment, comprising 58% and 53% of part time and casual workers, respectively for spirits manufacturers.[2] Meanwhile male workers make up 70% of full-time workers. The Spirits Industry Survey similarly found females were overrepresented in part-time and casual employment (see Chart 17).

The Spirits Industry Survey found that the spirits manufacturers workforce is spread across all age groups, with a concentration of 36% among those aged 25-34 years (see Chart 18) which is higher than the 24% of workers in this age range in the Australian workforce as a whole.[3]

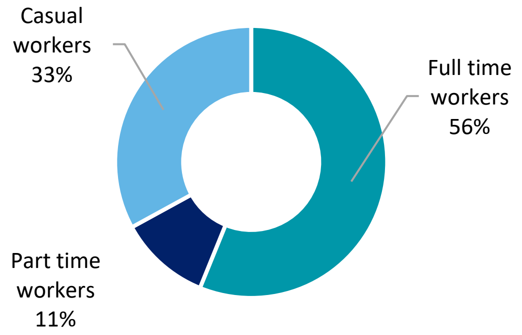
[a] *Respondents were asked for the gender distribution of their business which is likely reflective of areas separate to the direct production of spirits (e.g. sales, management and hospitality) .*
[1] *Australian Bureau of Statistics 2023, Labour Force, Australia, Detailed, November 2023*
[2] *Workforce Gender Equality Agency 2022, The gender pay gap by age group*
[3] *Australian Bureau of Statistics 2023, Labour Force, Australia, Detailed, November 2023*

Chart 15: Gender distribution of the alcoholic beverages workforce



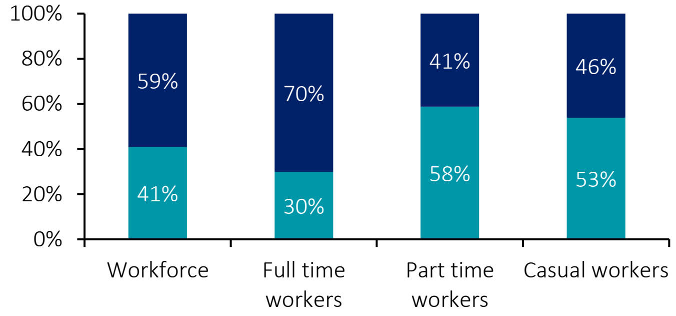
Source: Australian Bureau of Statistics, Census of Population and Housing 2021. Distillery workers are defined by workers which identified themselves as being employed in ANZSIC 1213 Spirit Manufacturing. Brewery workers are those employed as OCCP 831112 Brewery worker, and wineries are those employed as OCCP 234213 Wine maker and 831118 Wine cellar hand.

Chart 16: Work distribution of spirits workforce



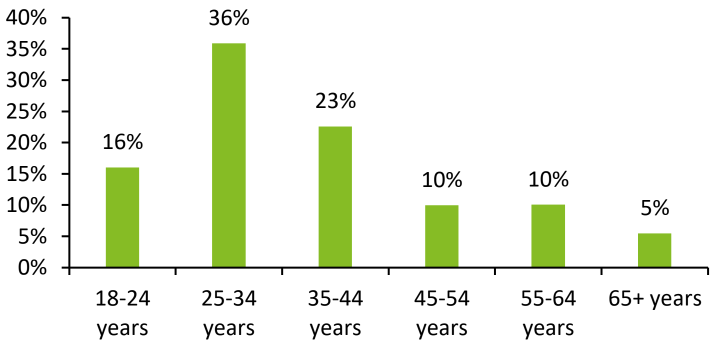
Source: Spirits Industry Survey, Deloitte Access Economics (n=213) Question: How many staff does your business employ?

Chart 17: Gender distribution of employment type



Source: Spirits Industry Survey, Deloitte Access Economics (n=148) , Question: What is the gender distribution of your workforce (direct employees only)? Note: "Non-binary" and "Other" are not shown in the chart above due to the small percentages of workers identifying as these groups. As a result some columns may not sum to 100%.

Chart 18: Age distribution of spirits workforce



Source: Spirits Industry Survey, Deloitte Access Economics (n=199) , Question: What is the age demographic of your workforce (direct employees only)?

A lack of applicants, particularly those with the required skills, is impacting the spirits industry.

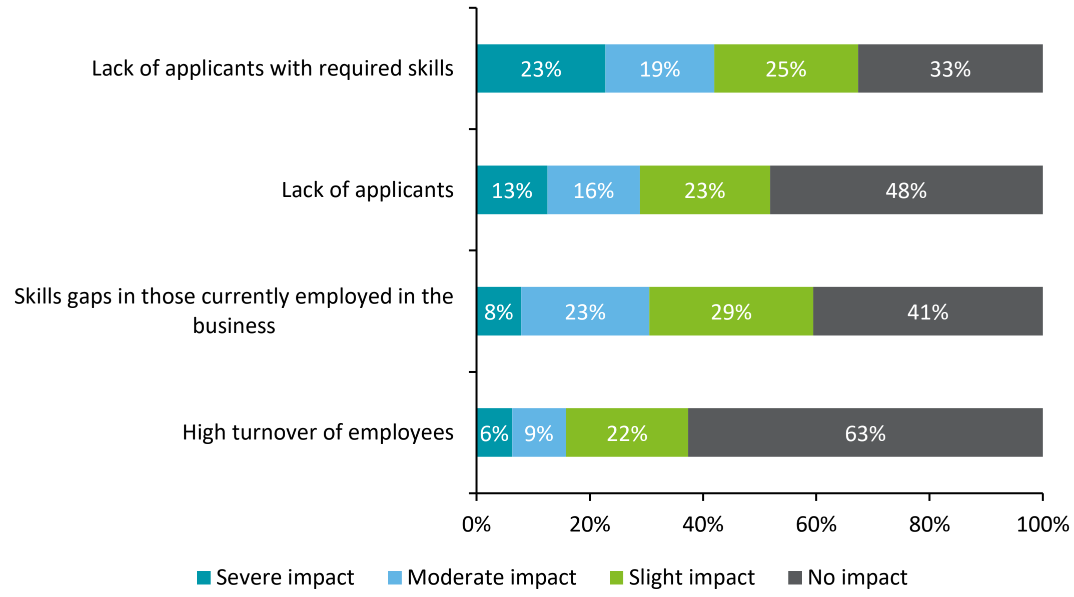
Spirits manufacturers are experiencing challenges with recruitment and existing workers according to the Spirits Industry Survey.

In terms of workforce recruitment, a lack of applicants with required skills and a lack of applicants generally were two of the most common workforce issues, experienced by 63% and 48% of spirits manufacturers and wholesalers/distributors respectively (see Chart 19). A higher proportion of metropolitan survey respondents were impacted by a lack of applicants with required skills than those located in regional locations, though the lack of applicants is prevalent across all locations.

When considering the existing workforce, 60% of respondents are experiencing some type of skills gap. The high prevalence of skills gaps in prospective and current workers indicates that closing this gap could improve industry growth.

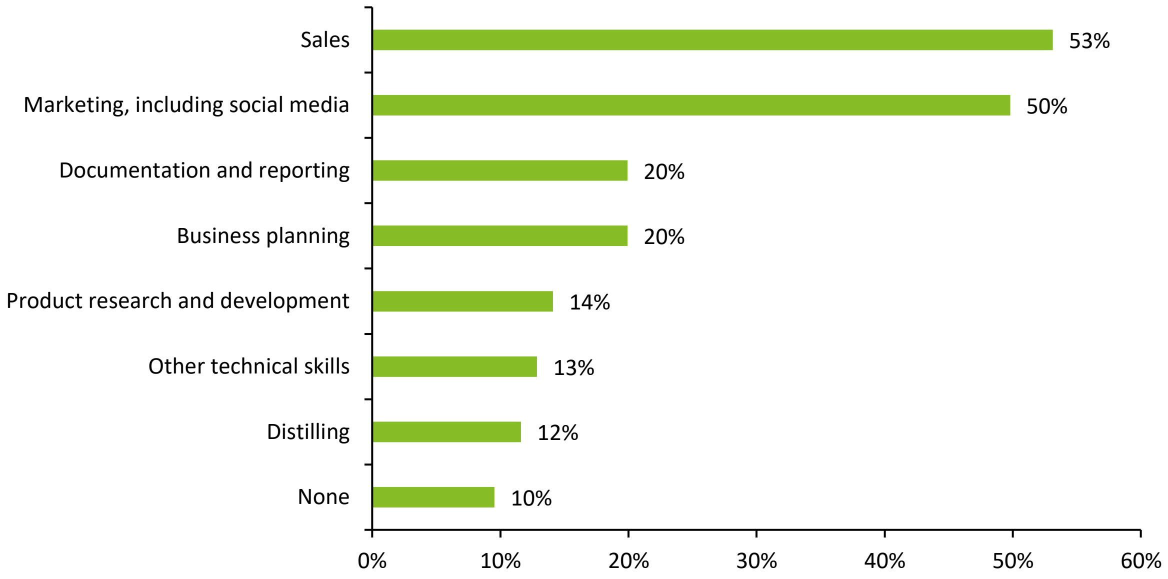
Just over half of surveyed businesses identified sales (53%) and marketing (50%) as key skill areas impacting their growth (see Chart 20). A smaller share of respondents believe their growth is being impacted by a lack of skills in other areas, such as business planning, documentation and reporting and product research and development.

Chart 19: Impacts of recruitment and workforce difficulties



Source: Spirits Industry Survey, Deloitte Access Economics (n=206)
Question: To what extent are the following recruitment and workforce difficulties having an impact on your business?

Chart 20: Skills areas impacting business' growth



Source: Spirits Industry Survey, Deloitte Access Economics (n=206)
Question: What skill areas is your business currently lacking that impact growth?

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The value of spirits exports increased by 69% over the past decade and became more diversified.

The value of spirits exports has grown 69% over the last decade, equivalent to an average annual growth rate of 5.4%.[1,a] This has been somewhat volatile, due to exports with China being highly variable, particularly of South Australian liqueurs, which experienced a large growth and decline between FY18 and FY20.

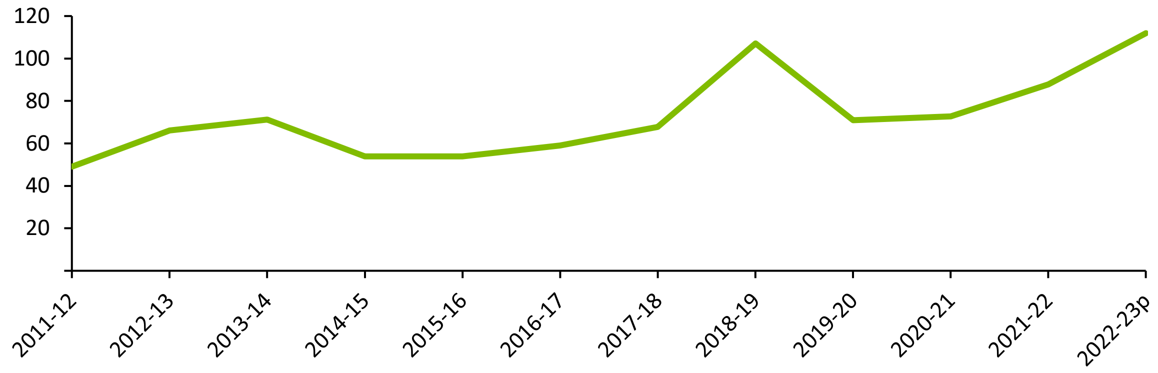
RTDs were the most exported spirit in FY23, making up 28% of total export value of spirits. The value of RTD exports surpassed brandy and grape spirits, which was the most exported type of spirit before FY22. Brandy and grape spirits fell from 44% to 20% of export value between FY18 and FY23, which was driven by both a decrease in the value of brandy exports and an increase in value of other spirits during that time – particularly gin, whisky, rum and liqueurs. Whisky, rum and liqueur exports have all more than tripled over the last five years.

New Zealand has remained the most important destination for Australian spirits exports, accounting for 37% of the export value in FY23. This represents an increase in importance from five years ago when New Zealand accounted for 25% of export value in FY18. The US is Australia's second largest export destination, accounting for 22% of export value, followed by China with 12% of export value. This represents a large increase in the importance of China, which accounted for only 2% of export value in FY18.

New Zealand, the US and China represent almost two-thirds of spirits exports by value in FY23. These countries also tend to have more diversified spirits types being imported compared to Australia's other export partners.

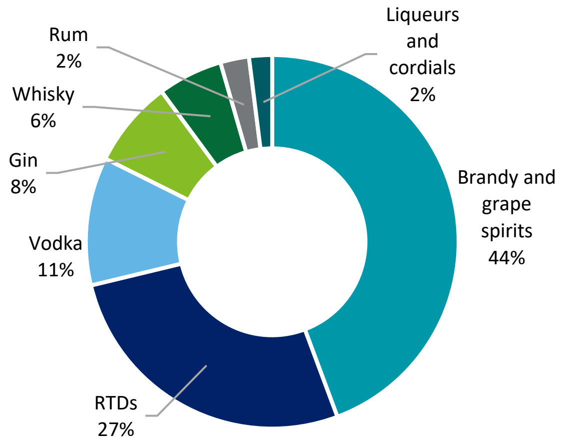
Conversely, the share of spirits exports going to the Netherlands has decreased, with the country being the second largest trading partner in FY18 and accounting for 11% of exports to less than 2% of Australia's exports. This is a fall from $7.4 million to $2.1 million, most of which is driven by a reduction in brandy exports.

Chart 21: Total value of exports of selected spirits from Australia FY12-FY23 ($ millions)



Source: ABS, International merchandise exports, Australia

Chart 22: Export value by type of spirit, FY18



Source: ABS, International merchandise exports, Australia

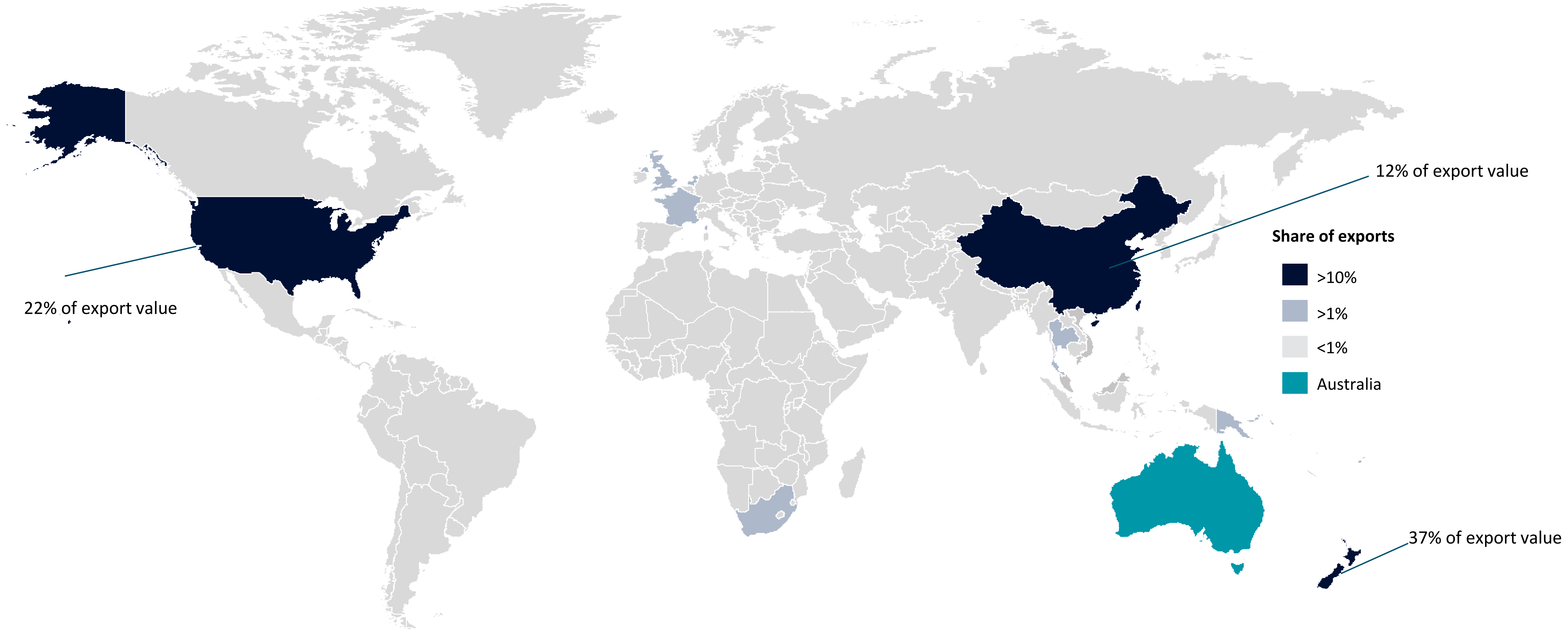
Chart 23: Export value by type of spirit, FY23

Source: ABS, International merchandise exports, Australia

[1] *Australian Bureau of Statistics, International merchandise exports, Australia*
a. Exports of pure alcohol is not included under spirits.

New Zealand, China and the US account for the largest share of spirits exports for surveyed manufacturers.

Figure 5: Export destinations for Australian spirits, FY23



Source: ABS, International merchandise exports, Australia

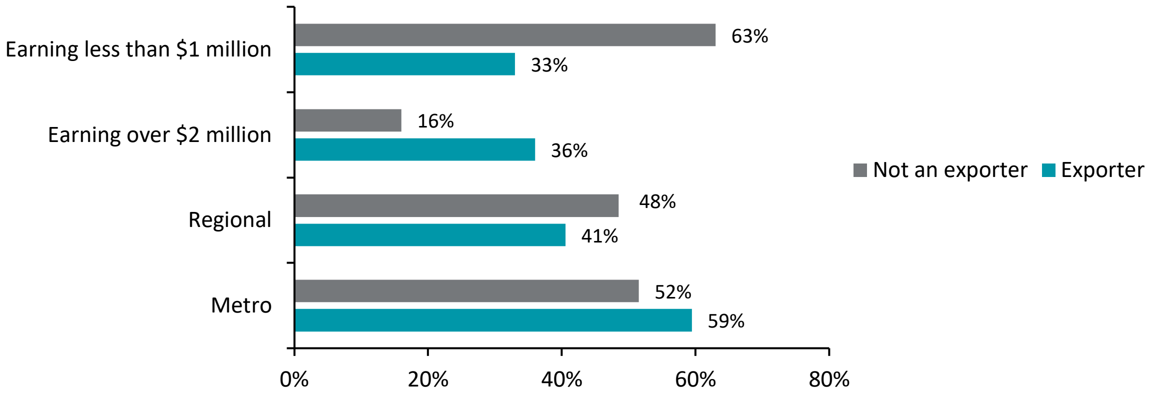
While only 17% of spirits manufacturers currently export, a further 40% are exploring opportunities to export.

Only 17% of spirits manufacturers currently export according to the Spirits Industry Survey. Of the businesses that currently export, the majority (92%) are interested in diversifying their current export markets. The share of spirits manufacturers exporting is set to grow with 40% of producers exploring opportunities to export, while one third are not currently interested in exporting.

Spirits manufacturers located in metropolitan areas are much more likely to be exporters (59%) compared to spirits manufacturers located in regional areas (41%). Current exporters are more likely to be large, with 36% of exporting businesses earning over $2 million, compared to 16% of businesses who do not export.

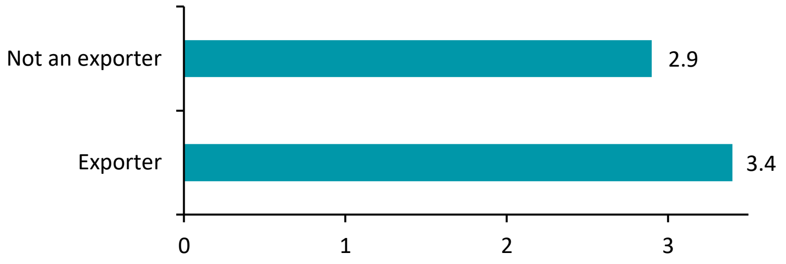
Spirits manufacturers that export are more diversified in types of spirits, producing on average 3.4 products compared to non-exporters, who produce 2.9 products on average. Interestingly, exporting spirits manufacturers generally expect lower revenue growth than non-exporters. Exporters expect an average of 5% revenue growth in FY24, while non-exporters expect 21% growth. However, this is likely a result of exporters generally being larger, more established businesses. Two-thirds (65%) of businesses which export overseas have revenue greater than $1 million per year, while only 9% of non-exporting businesses have reached that threshold.

Chart 24: Location, size by export status



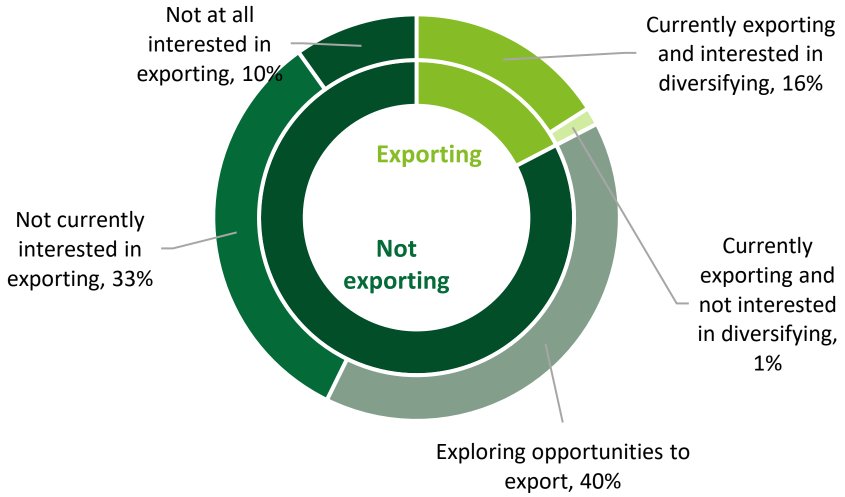
Source: Spirits Industry Survey, Deloitte Access Economics (n=263)
Question: Which of the following best describes your business?

Chart 25: Number of products produced by export status



Source: Spirits Industry Survey, Deloitte Access Economics (n=263)
Questions: Which of the following best describes your business? ; Which of the following spirits and other distilled products does your business produce?

Chart 26: Interest in exporting by survey recipients



Source: Spirits Industry Survey, Deloitte Access Economics (n=263)
Question: Which of the following best describes your business?

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Surveyed spirits manufacturers invested over $343 million in FY23 and 30% expect to invest more in FY24.

Investment activity is an important measure of industry health. Spirits manufacturing requires significant capital expenditure on specialised equipment to begin operations and expand. Surveyed spirits manufacturers invested $343 million in FY23.

Over 90% of capital investment came from spirits manufacturers with over $10 million in annual revenue, despite making up only 7% of survey respondents. This finding is similar to the 2021 Deloitte Access Economics study on the spirits industry, which found that 95% of capital investment in FY19 came from businesses with revenue over $1 million in FY19.[1]

Capital investment in FY24 is expected to increase with 30% of respondents anticipating an increase in the amount invested. If realised, capital investment will rise to $353 million (a 2.6% increase) from the FY23 level.

On average, there have been significant increases in capital investment for businesses with larger revenue. Spirits manufacturers with over $10 million in revenue invested on average $30 million in FY23, while those with revenue between $1 million and $10 million invested an average $300,000 (see Chart 27). The increase in investment by larger spirits manufacturers may be due to economies of scale allowing them to expand.

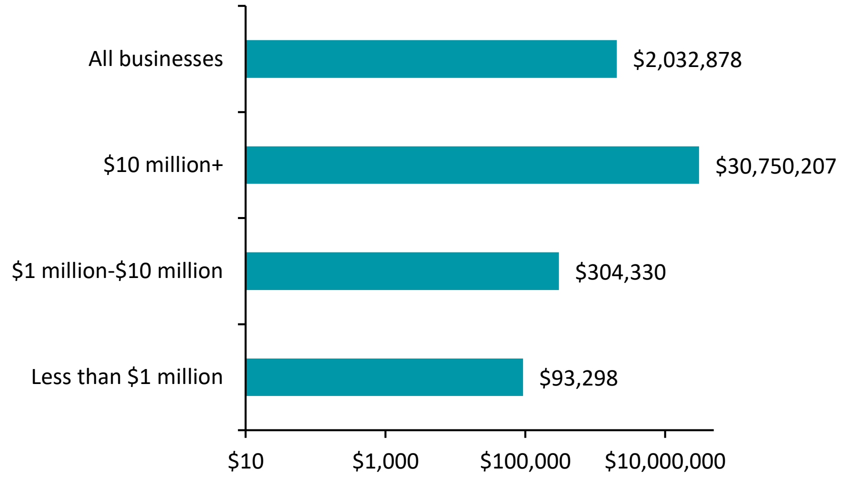
Maturation – the ageing of spirits in barrels (e.g. whisky, rum and brandy) – is another form of investment for the spirits industry as they can get a larger return on the spirits at a later time period.

Spirits manufacturers have 61 million litres of spirits under maturation,[a] comprising 72% rum and 27% whisky. This estimate is based on the survey responses, scaled up to account for non-survey respondents. The remaining 1% of spirits under maturation are brandy and other matured spirits. 42% of spirits manufacturers have some form of spirits under maturation in Australia.

42% of spirits manufacturers had some form of spirits under maturation in Australia in FY23. More than one fifth (23%) of the spirits currently under maturation were produced in FY23. Two thirds of businesses (65%) which placed some spirits under maturation in the year to June 2023 are expecting to produce a greater volume of spirts for maturation in FY24.

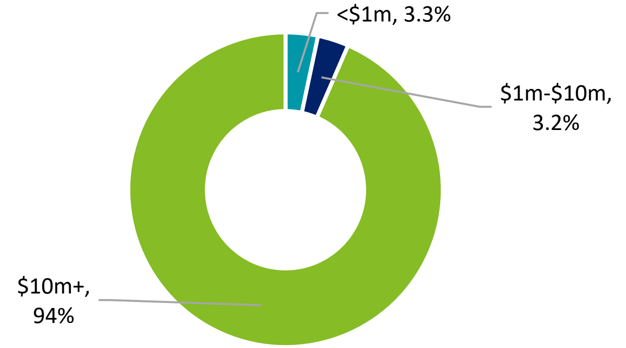
The volume of spirits placed under maturation is expected to grow in FY24 from 16.5 million litres to 17.9 million litres. There is, however, significant variation across distillers, with some cutting back on their planned volumes being allocated to maturation over the next twelve months.[b]

Chart 27: Average capital investment by business size in 2022-23



Source: Spirits Industry Survey, Deloitte Access Economics (n=137) "Question: What is your annual capital investment (including investment in machinery, equipment and building)?" And "What is the value of capital investment you are expecting to undertake in 2023-24?"

Chart 28: Share of total capital investment by business size



Source: Spirits Industry Survey, Deloitte Access Economics (n=277) Question: Do you currently have or intend to have any spirits under maturation?

[a] This figure may underestimate the true volume of spirits under maturation due to non-responses.
[b] The decrease in reported spirits under maturation may also reflect non-responses regarding current/future volumes.
[1] Spirits & Cocktails Australia and Australian Distillers Association 2021, 2022 Pre-Budget Submission: Unleashing the Potential of the Australian Spirits Industry

Most respondents have bootstrapped their business with personal investment. Investment in production or sales are at the front of mind for over half of distillers.

The industry's funding came from a variety of sources. The average respondent used 1.1 sources for capital investment. Businesses with less than 20 employees used 1.0, while larger manufacturers used 2.4 sources.

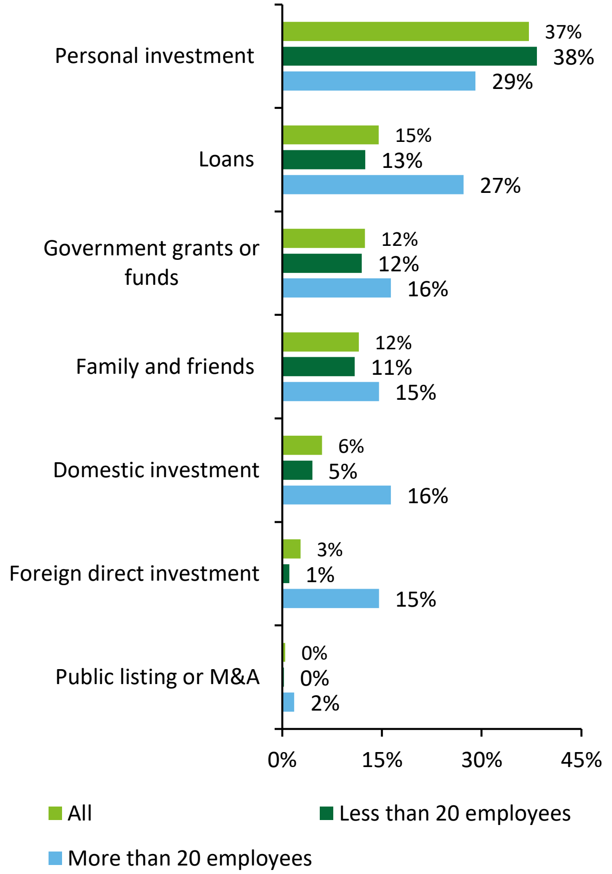
Personal investment was the most common source of capital, used by 84% survey respondents followed by loans (33%) and government grants or funds (28%). Businesses with less than 20 employers were more likely to use loans, government grants and family and friends as sources of capital whereas larger manufacturers used public listing or Mergers and Acquisitions (M&A).

Foreign Direct Investment (FDI) was used by only 3% of survey respondents. The share of businesses using FDI differed by business size, as larger internationally owned businesses were more likely to receive payments from parent companies. Only 1% of smaller businesses (less than 20 employees) used FDI, compared to 15% for larger businesses (more than 20 employees).

While FDI was not widely used by the industry it remains an opportunity for the sector with 77% survey respondents reported a 20% increase in this source of capital would support additional operational activity. Over half of all businesses reported it could support increasing the level of production and sales and marketing activity. Smaller businesses were more likely to report it could support export activity and distillery doors.

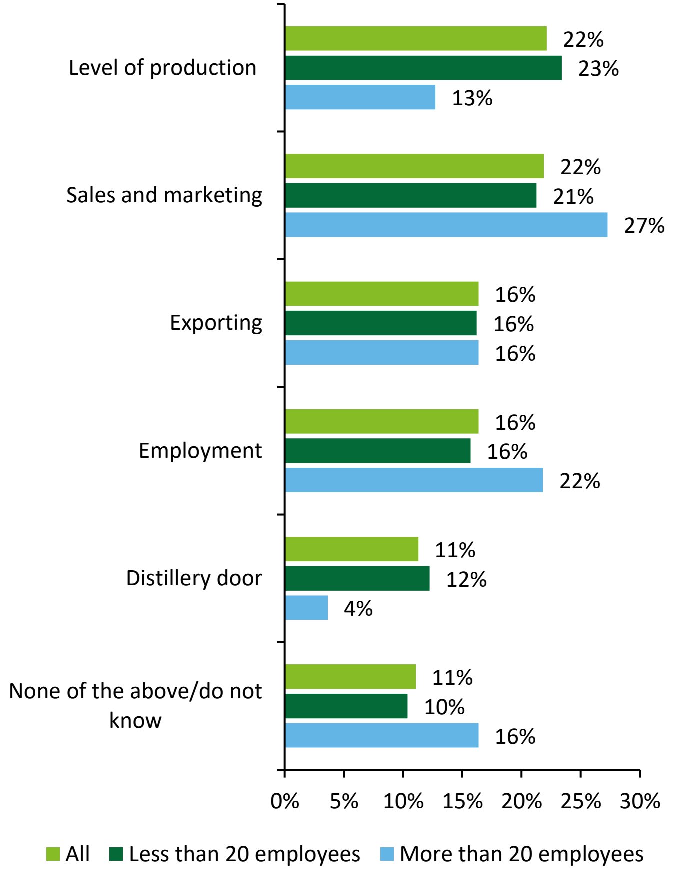
Smaller businesses were more likely to look at exporting production (46%) than larger businesses (18%). In addition, smaller businesses were more likely to know where to invest an increase in FDI than larger businesses.

Chart 29: Proportion of businesses using different sources of capital investment



Source: Spirits Industry Survey, Deloitte Access Economics (n=227) Question: Which of the following sources of capital has your business used to finance its operation or investment?

Chart 30: Most impacted business areas by 20% increase in FDI



Source: Spirits Industry Survey, Deloitte Access Economics (n=163) Question: Which three of the following aspects of your business would be most impacted by a 20% increase in foreign investment?

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The cost-of-living crisis has constrained consumer spending, though population growth is providing support.

Australia's economy in 2023 has been a story of managing two constraints: the cost-of-living crisis (price inflation exceeded wage growth for 12 quarters in a row), and the bitter medicine administered to bring inflation to heel – very rapid interest rate increases.

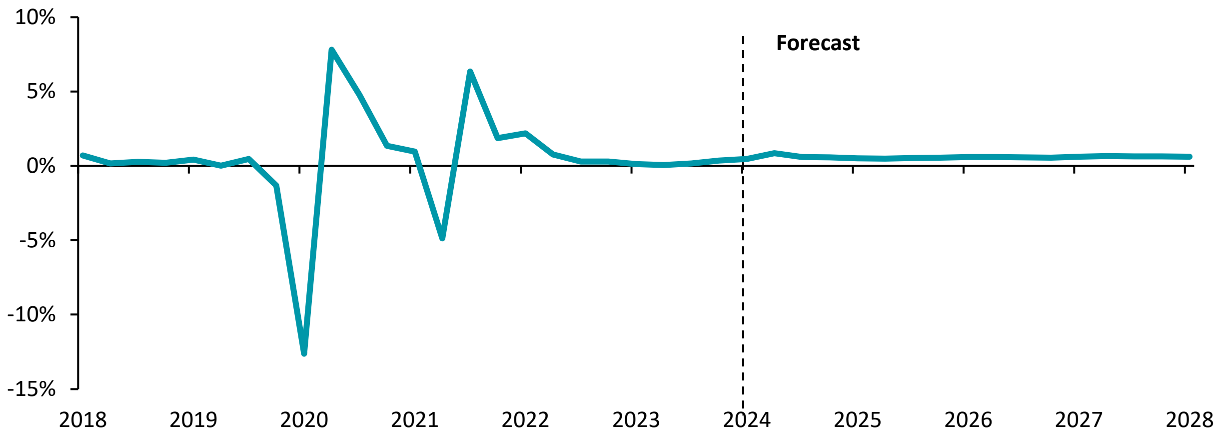
Economic growth moderated to 2.1% in the year to June 2023. Despite growth remaining positive, strong net overseas migration is propping up the economy. On a per capita basis, Australia has been in recession: data has confirmed Gross Domestic Product (GDP) growth was less than population growth over the first half of 2023, with every likelihood this continued over the second half.

The consumer has led this downturn, with real retail spending tracking backwards over the past year (even before population growth is taken into account). Retail businesses have responded with more significant discounting to entice people to spend.

But there are some green shoots. After three years of real wages going backwards (the cost-of-living crisis in a nutshell), quarterly real wage growth was positive in September 2023. As price inflation moderates going forward, albeit slowly, real wage growth will provide some welcome support for consumers, though it will take time for consumers to regain the purchasing power they've lost.

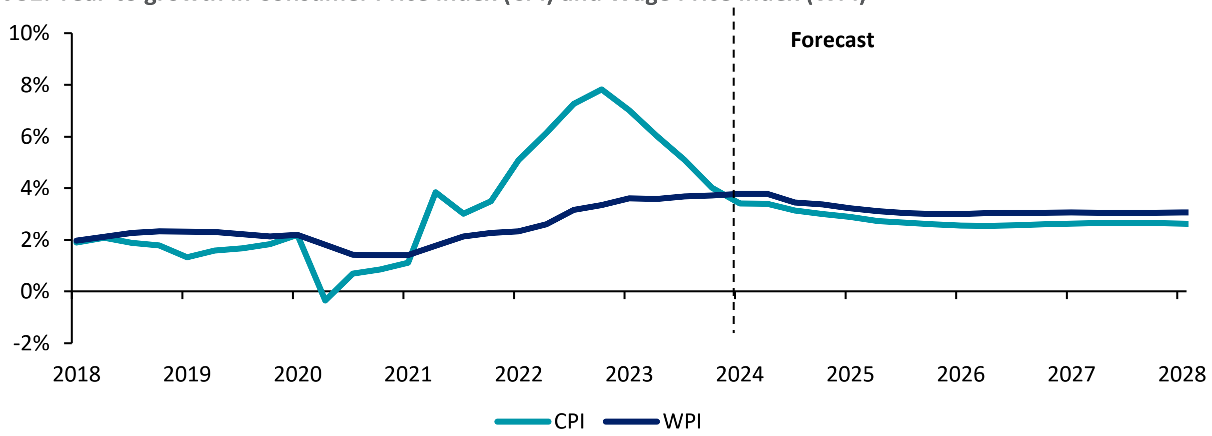
Real wage growth combined with an end to interest rate rises, legislated tax cuts to be delivered in July 2024 and strong ongoing population growth are expected to drive a pick-up in Australia's economic growth through the course of 2024.

Chart 31: Growth in real consumer spending over time



Source: Deloitte Access Economics, ABS, National accounts

Chart 32: Year-to growth in Consumer Price Index (CPI) and Wage Price Index (WPI)



Source: Deloitte Access Economics , ABS, Consumer Price Index, ABS, Wage Price index

More than two thirds (68%) of survey respondents are expecting revenue growth in FY24.

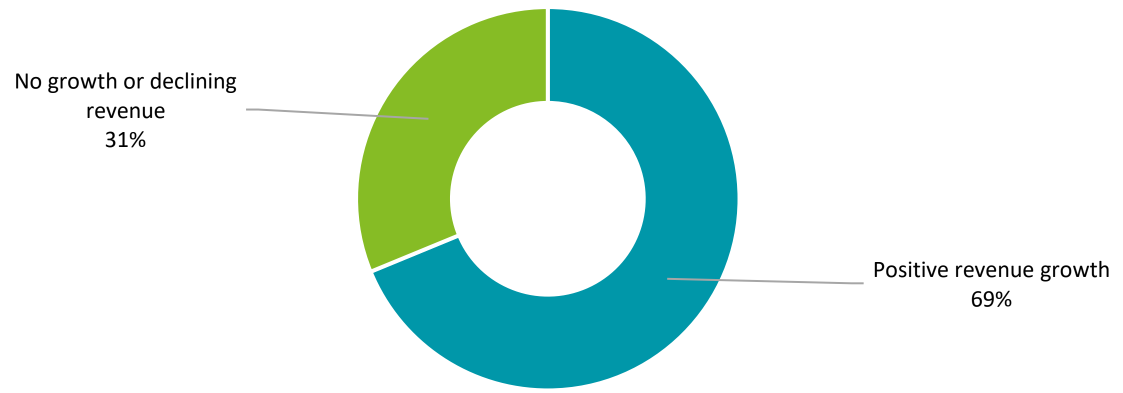
Despite the challenging macroeconomic environment, over two thirds of spirits manufacturers and wholesalers/distributors surveyed expect revenue growth over 2023-24, with the average increase expected being 32% and a median of 10%. However, 31% of respondents that expect no growth or declining revenue over the next financial year.

Those with very high growth expectations mostly have less than $1 million in revenue. In fact, the average revenue growth for this cohort expect 54% growth in the current financial year while the median is 10% growth. These businesses may expect to rapidly expand as they establish operations and build revenue from a low baseline. The large difference between the average and the median suggests that there are small businesses with high expected growth driving the difference.

Businesses that earned over $10 million expect 5% revenue growth on average with a median of 10%. These large businesses are concentrated in Victoria and New South Wales, with both states showing significantly higher expected growth in their smaller businesses. The pace of growth varies across the states of Australia. The largest average expected revenue increase is Victoria with 67%, followed by Queensland with an average of 33%.

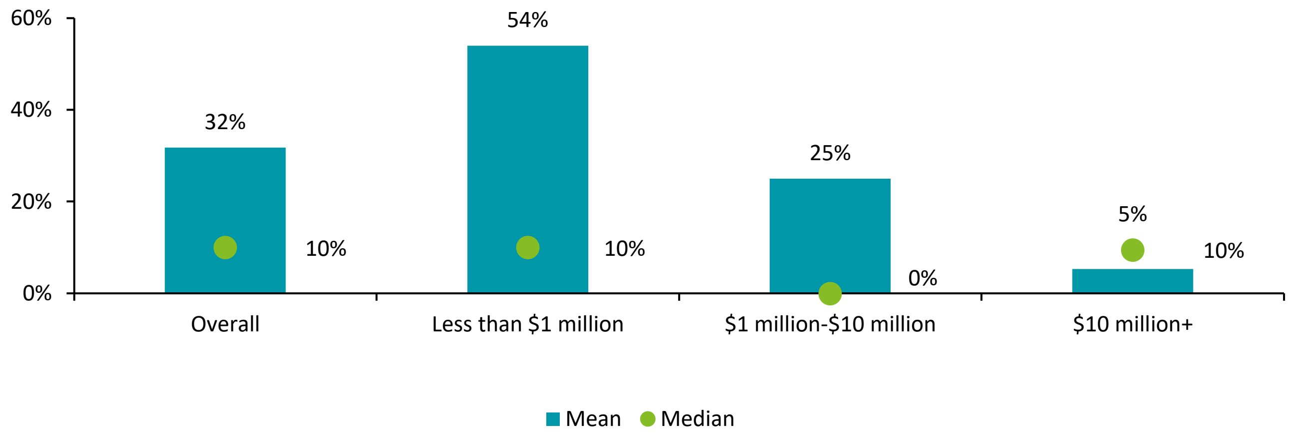
Those located in metropolitan areas are expected to grow by an average of 25% in the current financial year – almost 10 percentage points more than the average expected growth of regional respondents.

Chart 33: Share of businesses expecting revenue growth



Source: Spirits Industry Survey, Deloitte Access Economics (n=122) Question: How do you expect your revenue to change in 2023-24?

Chart 34: Revenue expectations by revenue group, percentage change in FY24



Source: Spirits Industry Survey, Deloitte Access Economics (n=122) Question: How do you expect your revenue to change in 2023-24?

Growth in the industry would be supported through addressing key barriers such as the excise tax burden, and inflation and rising costs of inputs.

The most significant barriers to growth for businesses in the spirits industry are excise tax burden, inflation and rising costs of inputs, and economic uncertainty.

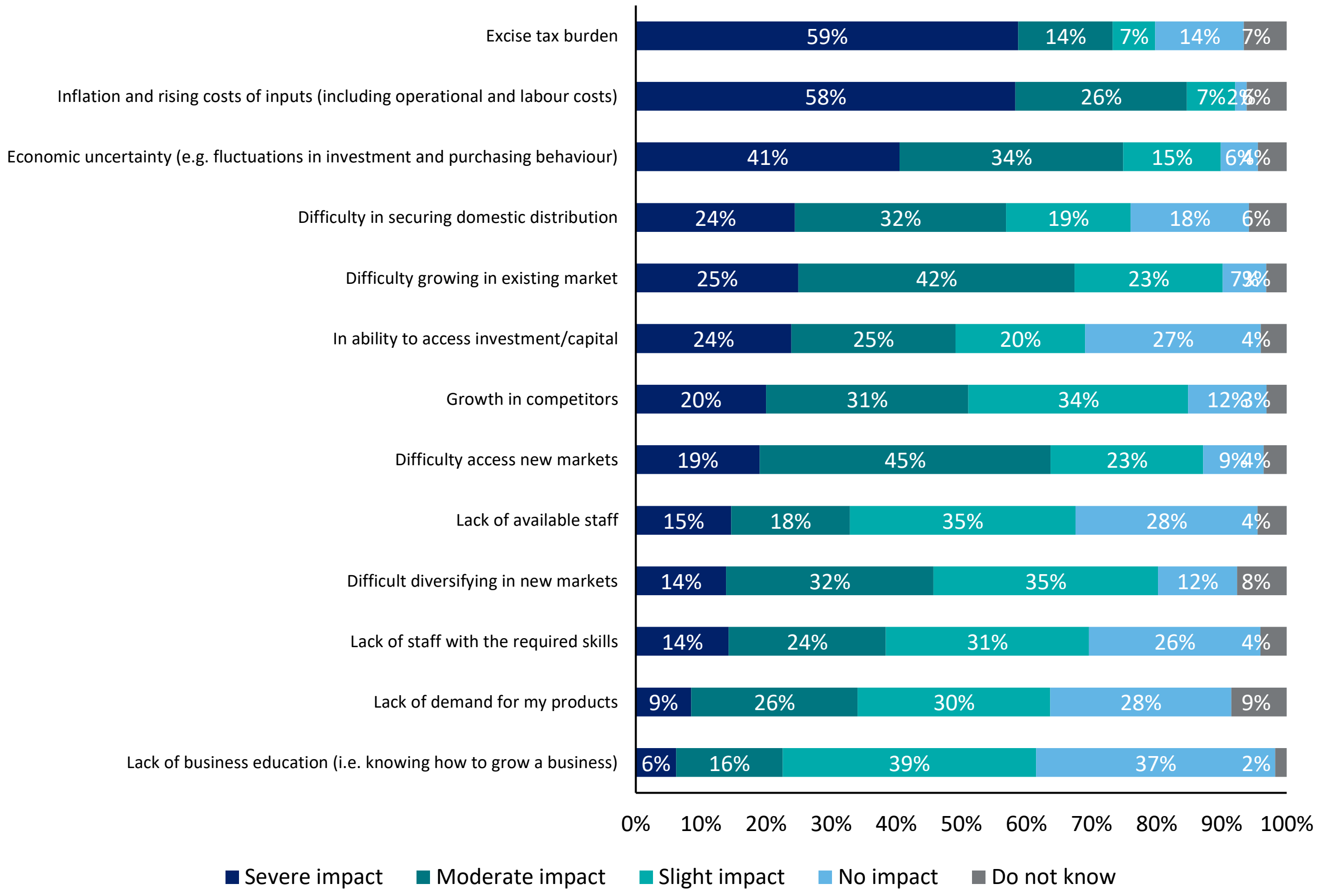
Excise tax burden is one of the key issues impacting the growth and expansion of spirits manufacturers, impacting 80% of survey respondents and severely impacting 59% (see Chart 35). Of surveyed spirits manufacturers above the remission threshold, 87% rated the excise tax burden as having a severe impact compared to 50% of those below the threshold.

Larger businesses are particularly feeling the impact of excise tax, with excise tax burden having a severe impact for 88% of respondents with 20 or more FTE. For businesses with less than 20 FTE, inflation and rising costs of inputs was the key barrier to growth and expansion, having a severe impact for 58% of these spirits manufacturers, followed closely by excise tax burden (56%).

The challenges of the current economic environment are also key barriers to growth. Inflation and rising costs of inputs is impacting (slight, moderate or severe) 92% of respondents, of which 59% are being impacted severely. This impact is higher amongst those not expecting revenue growth next year, severely impacting 67% compared to 53% for those expecting revenue growth. Meanwhile economic uncertainty is impacting 70% of businesses, with almost one-third classifying the impact as severe, increasing to one-half amongst spirits manufacturers not expecting revenue growth next year.

Other prevalent issues are difficulties in growing existing markets and accessing new markets, with these issues impacting about 90% of businesses, although having a less severe impact than some of the other issues mentioned.

Chart 35: Key barriers to growth and expansion



Source: Spirits Industry Survey, Deloitte Access Economics (n=224) Question: What are the key barriers to your business's growth and expansion?

Survey respondents cite excise tax as having most severe impact on the price of products and investment in business facilities.

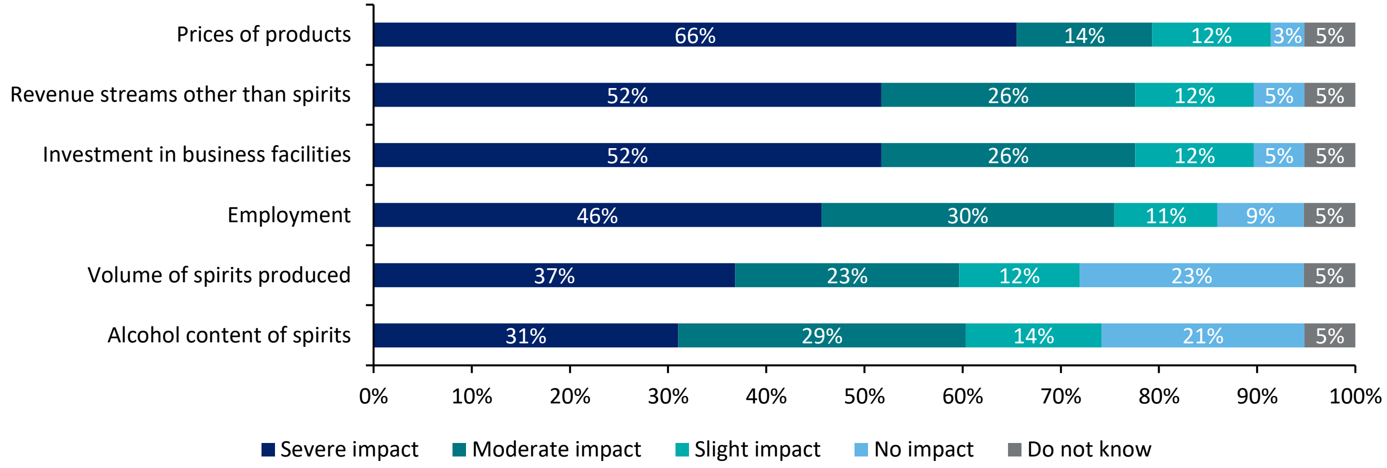
Excise tax was the most common barrier to growth to have a severe impact according to the Spirits Industry Survey.

The excise tax has a remission threshold of $350,0000 in revenue, after which a manufacturer is liable for paying excise. 29% of those surveyed paid excise in FY23. When asked which aspect of their operations were most impacted by the excise tax, two thirds of respondents selected the tax was having a severe impact of prices of products. This was followed by just over half of those surveyed reporting it had a severe impact on revenue streams other than spirits, and investment in facilities.

For those currently not paying excise, nearly two thirds (64%) do not expect to pay excise. The most common reason (cited by 35% of relevant manufacturers) for not expecting to pay excise was an ‘other’ category. Text responses revealed the lack of expected growth to reach excise level followed by actively ensuring production does not exceed threshold (33%) and products will be under maturation (33%).

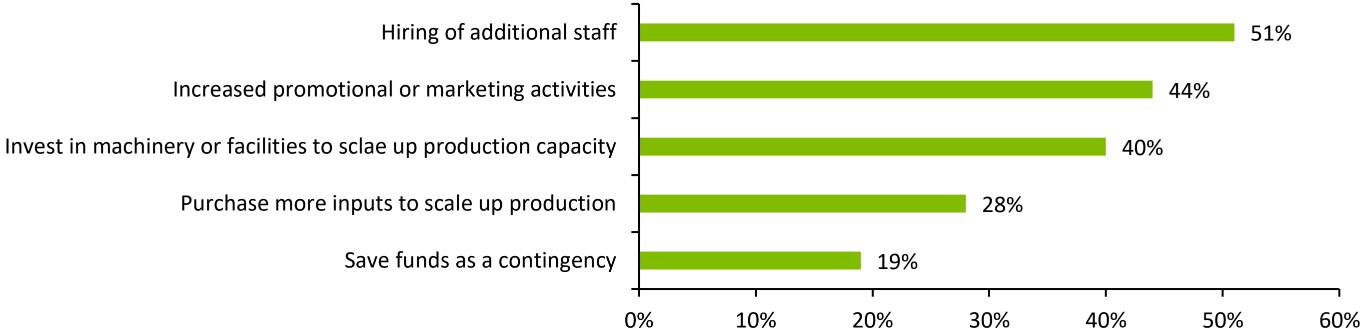
When asked the impact from a pause in excise indexation at currently levels ($100.05 per LAL), the most common impact was hiring of additional staff (51%) followed by increased promotional or marketing activities (44%) and investment in machinery or facilities to scale up production capacity (40%).

Chart 36: Impact of paying excise on decision making



Source: Spirits Industry Survey, Deloitte Access Economics (n=192) Question: How has the Excise duty impacted decision making for the following areas of your business?

Chart 37: Impacts from a pause in excise indexation



Source: Spirits Industry Survey, Deloitte Access Economics (n=191) Question: If excise indexation was paused at current levels ($100.05 per LAL), which of the following is most likely to occur? Please rank up to three

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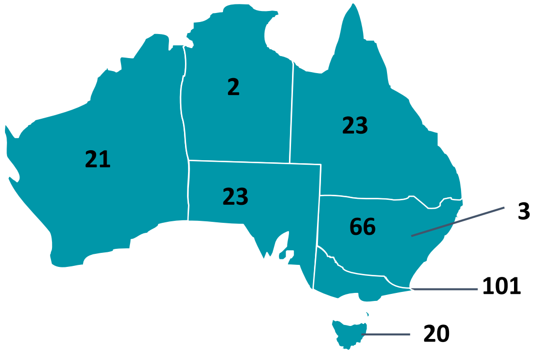
Deloitte Access Economics was commissioned by Spirits and Cocktails Australia to undertake an in-depth analysis of the spirits industry in Australia and develop a comprehensive picture of the industry, including its economic contribution to the economy, updating the prior report developed for Spirits and Cocktails in 2020.

This report is informed by a survey – the Spirits Industry Survey which was fielded by Deloitte Access Economics from 10 November to 1 December 2023. 256 businesses across Australia completed the survey. The responses from the Spirits Industry Survey were supplemented with a similar study for the Department of Energy, Environment and Climate Action (DEECA) on the Victorian spirits industry where questions were matched.

Most respondents were from Victoria or New South Wales, representing 52% of respondents (see Chart A.1). Almost all respondents were manufacturers, representing 95% of respondents (see Chart A.2).

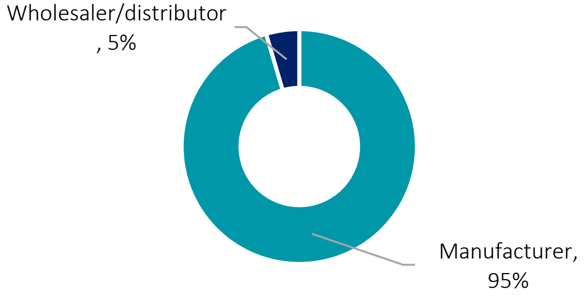
The majority (58%) of respondents have been operating for less than 5 years (see Chart A.3), with most (51%) having a headcount of 1-4 employees (see Chart A.4).

Chart A.1: Completed survey responses by jurisdiction



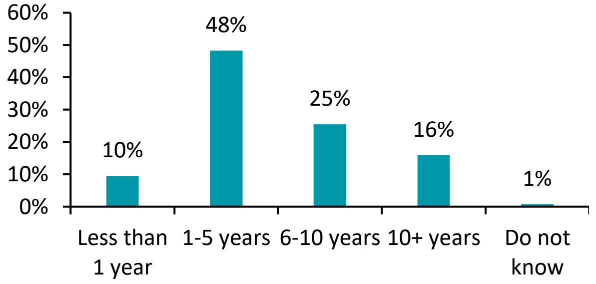
Source: Spirits Industry Survey, Deloitte Access Economics (n=256) Question: Where are your Australian headquarters and operations located?

Chart A.2: Type of business



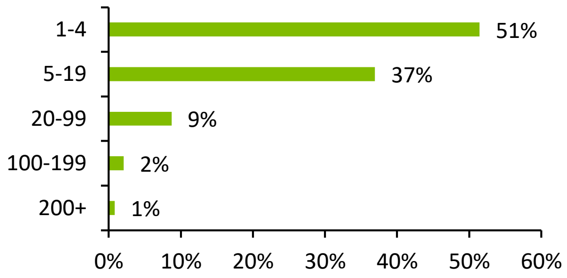
Source: Spirits Industry Survey, Deloitte Access Economics (n=256) Question: Which of the following best describes your organisation??

Chart A.3: Years in operation



Source: Spirits Industry Survey, Deloitte Access Economics (n=263) Question: How many years has your business been in operation?

Chart A.4: Employees (headcount)



Source: Spirits Industry Survey, Deloitte Access Economics (n=263) Question: How many staff does your business employ?

Comparison to other measures of the Australian distilleries sector

Based on the Spirits Industry Survey, there are over 5,700 FTE roles directly supported by Australian spirit manufacturers in FY23. The ABS census estimated that the number of people employed in spirits manufacturing was 806 in 2021.[1] This figure is substantially lower than estimates for this research. The difference is likely due to the Australian and New Zealand Standard Industrial Classification (ANZSIC) classifications that categorises workers into a single industry. In practice many workers may be reflected in broader agricultural roles as the employing business may produce a variety of non-spirit goods.

Similarly, the ABS estimates that there are 177 spirit manufacturers in Australia in FY23,[2] while SCA and ADA spirits manufacturer databases suggests there are 701 distilleries which is likely to reflect the various non-spirit products that businesses produce that may result in the business being classified in other industries.

[1] *Australian Bureau of Statistics, Census of Population and Housing, 2021*
[2] *Australian Bureau of Statistics, Counts of Australian Businesses, 2023*

APPENDIX B | ECONOMIC CONTRIBUTION METHODOLOGY

Economic contribution studies are intended to quantify measures such as value added, exports, imports and employment associated with a given industry or firm, in an historical reference year. The economic contribution is a measure of the value of production by a firm or industry.

B.1. Value added

Value added is the most appropriate measure of an industry's economic contribution to gross domestic product (GDP) at the national level, or gross state product (GSP) at the state level. Other measures, such as total revenue or total exports, may be easier to estimate than value added, but they 'double count'. That is, they overstate the contribution of a company to economic activity because they include, for example, the value added by external firms supplying inputs or the value added by other industries.

Value added is the sum of:

- **Gross operating surplus** (GOS), which represents the value of income generated by the entity's direct capital inputs, generally measured as earnings before interest, tax, depreciation and amortisation (EBITDA).
- **Labour income**, which represents the value of output generated by the entity's direct labour inputs, as measured by the income to labour.
- **Tax on production less subsidy provided for production**, which generally includes company taxes and taxes on employment (given the returns to capital before tax (EBITDA) are calculated, company tax is not included or this would double count that tax). Gross output measures the total value of the goods and services supplied by the entity. This is a broader measure than value added because it is an addition to the value added generated by the entity. It also includes the value of intermediate inputs used by the entity that flow from value added generated by other entities.
- **Employment** is a fundamentally different measure of activity to those above. It measures the number of workers that are employed by the entity, rather than the value of the workers' output.

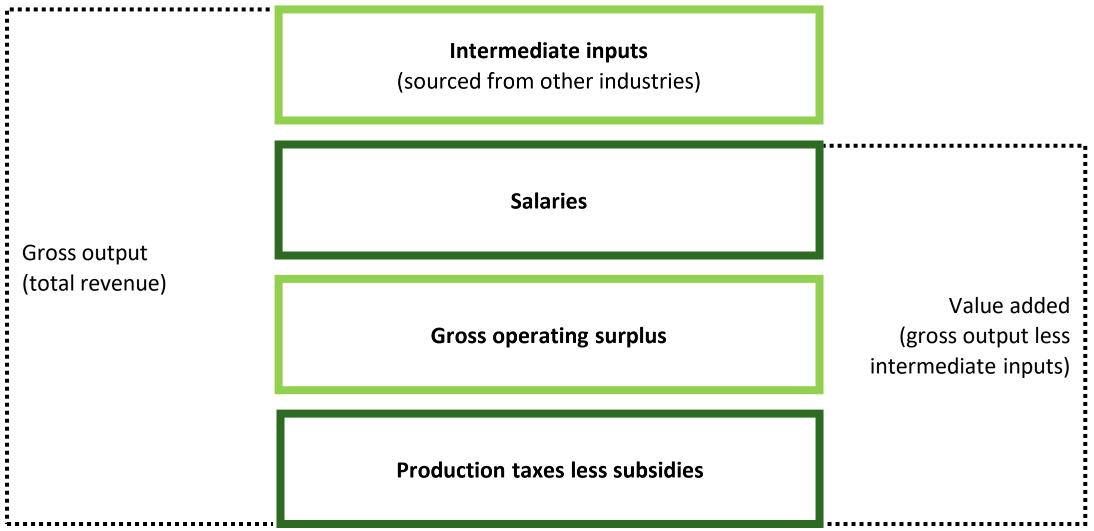
B.2. Measuring the economic contribution

There are several commonly used measures of economic activity, each of which describes a different aspect of an industry's economic contribution.

Value added measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labour and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals GDP. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare.

Figure B.1 shows the accounting framework used to evaluate economic activity, along with the components that make up gross output. Gross output is the sum of value added and the value of intermediate inputs. Value added can be calculated directly by summing the payments to the primary factors of production, labour (i.e. salaries) and capital (i.e. gross operating surplus), as well as production taxes less subsidies. The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.

Figure B.1: Economic activity accounting framework



Source: Deloitte Access Economics.

B.3. Direct and indirect contributions

Direct economic contribution is a representation of the flow from labour and capital within the sector of the economy in question. Indirect contribution is a measure of the demand for goods and services produced in other sectors as a result of demand generated by the sector in question.

Estimation of the indirect economic contribution is undertaken in an input-output (IO) framework using Australian Bureau of Statistics input-output tables, which report the inputs and outputs of specific sectors of the economy. The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

B.4. Estimating economic contribution for the spirits industry

An economic contribution for the spirits industry can be generated using either a 'top-down' (using publicly available data at the sector level) or bottom up (survey of industry members) approach. A mixed approach is used here.

For this analysis, the contribution of the spirit manufacturers is informed by the spirit industry survey. The survey collected financial information flowing directly into our modelling and scaled up using average from survey respondents, as well as data from the Commonwealth Budget, to account for businesses that did not complete the survey or provide financial information.

For the other components of the spirits industry we have used publicly available data sourced from IBISWorld (supplemented by ABS data where possible) to model the direct economic contribution of spirits wholesaling, retailing and hospitality.

We have utilised evidence-based assumptions for the spirits share of operations for downstream sectors. We have drawn on ABS data, state liquor wholesaling data, and industry reports to inform these assumptions (Table B.1). The relative state and territory share of the activity was based on relevant shares of business counts for these components.

To estimate the indirect flow-on contribution of the industry we have findings from the survey of Spirits Industry Survey and utilised the expenditure patterns identified in the relevant IO tables for each of the sectors as identified by the ABS relating to the spirits industry. These expenditure profiles have been adjusted for imports so that only domestic contribution is considered.

spirits wholesalers already includes purchases from manufacturers. Similarly, the direct and indirect effects of the spirits retailing sector includes purchases from wholesalers. To add up the direct and indirect effects for each sector in the supply would result in double counting and an overestimation of total economic contribution. To account for double counting we have excluded backward interactions between supply chain actors in the economic contribution modelling.

Table B.1: Sectors considered in this analysis

Spirits sector	I-O table sector	Spirits share
Spirits manufacturing	Wine, spirits and tobacco	100%
Liquor wholesaling	Wholesale Trade	25%
Liquor retailing	Retail Trade	35%
Café and coffee shops	Food and Beverage Services	1.6%
Restaurants	Food and Beverage Services	4.0%
Pubs, Bars and Nightclubs	Food and Beverage Services	20.4%
Social clubs	Food and Beverage Services	12.0%
Catering Services	Food and Beverage Services	1.0%
Hotels and resorts	Accommodation	0.8%
Motels	Accommodation	0.2%
Casinos	Gambling	0.8%

Source: Deloitte Access Economics.

B.5. Limitations of economic contribution studies

While describing the geographic origin of production inputs may be a guide to a firm's linkages with the local economy, it should be recognised that these are the type of normal industry linkages that characterise all economic activities.

Unless there is significant unused capacity in the economy (such as unemployed labour) there is only a weak relationship between a firm's economic contribution as measured by value added (or other static aggregates) and the welfare or living standard of the community.

Indeed, the use of labour and capital by demand created from the industry comes at an opportunity cost as it may reduce the amount of resources available to spend on other economic activities. This is not to say that the economic contribution, including employment, is not important.

As stated by the Productivity Commission in the context of Australia's gambling industries:

"Value added, trade and job creation arguments need to be considered in the context of the economy as a whole … income from trade uses real resources, which could have been employed to generate benefits elsewhere. These arguments do not mean that jobs, trade and activity are unimportant in an economy. To the contrary they are critical to people's well-being. However, any particular industry's contribution to these benefits is much smaller than might at first be thought, because substitute industries could produce similar, though not equal gains."

In a fundamental sense, economic contribution studies are simply historical accounting exercises. No 'what-if', or counterfactual inferences — such as 'what would happen to living standards if the firm disappeared?' — should be drawn from them.

The analysis — relies on a national input-output table modelling framework and there are some limitations to this modelling framework. The analysis assumes that goods and services provided to the sector are produced by factors of production that are located completely within the state or region defined and that income flows do not leak to other states.

the economy does not increase prices and subsequently crowd out economic activity in another area of the economy. As a result, the modelled total and indirect contribution can be regarded as an upper-bound estimate of the contribution made by the supply of intermediate inputs.

Similarly, the IO framework does not account for further flow-on benefits as captured in a more dynamic modelling environment like a Computable General Equilibrium model.

Source: Deloitte Access Economics.

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Chapter 6 – Outlook

1. As a result, the national economy is only expected to grow 1.2% in 2023-24 (real GDP), well below the 2.4% average annual rate seen in the decade to 2022 and that of the prior period 2022-23 (3.3%).
2. The rate of total population growth is expected to decline in the coming years following the 2% increase in the past year
3. Population growth of those ages 15+ years (predominantly alcohol consumers) will consistently outpace the total as it did in the FY23 period (2.3%), driven by record high net overseas migration.

Deloitte.

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This document is prepared solely for the use of Spirits and Cocktails Australia. This document is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of analysing the spirits industry in Australia. You should not refer to or use our name or the advice for any other purpose.

MANDALA

Spirits industry sector competitiveness plan

A $1 billion export opportunity: a plan to grow Australia’s spirits industry

MARCH 2024

Prepared for Australian Distillers Association (ADA) and Bundaberg Rum

Australian Distillers

BUNDABERG RUM

DIAGEO

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MANDALA

Mandala is a research firm with offices in Melbourne, Canberra, Sydney and Perth. Mandala specialises in combining cutting-edge data and advanced analytical techniques to generate new insights and fresh perspectives on the challenges facing businesses and government.

Note: All dollar figures are Australian dollars unless indicated otherwise.

A $1 billion export opportunity: a plan to grow Australia's spirits industry

1

The Spirits industry supports almost $1.2 billion in economic activity and over 7,600 FTE jobs and contributes to many national economic priorities

Growing Manufacturing Jobs	**5,700 manufacturing** FTE jobs
Supporting Small Business	**88% of distillers** have fewer than 20 employees
Empowering Regional Communities	**48% of distillers located outside of capital cities**
Creating Export Opportunities	Growing regional demand and drink preferences
Generating Tourism	Over **630,000** visitors annually
Supporting diversity and young people	**More than half** of the workforce are younger than 35 years old

2

Despite this, **exports are small** compared to the wine industry and international peers

6th

Australian wine exports ranked 6th in the world[1]

VS

29th

Australian spirits exports ranked 29th in the world[1]

3

Spirits exports could reach **$1 billion** by 2035 if Australia realised its potential

$210m

Export industry in 2022

$1b

Export industry by 2035

4

However, there are several barriers holding Australia back from realising this potential

- **Cost of alcohol and excise tax**
- **Country branding**
- **Trade support & conditions**
- **Ease of doing business**

5

Government can act now to help create a **$1 billion** export industry akin to the wine industry

- **Attract investment**
- **Build industry capability**
- **Streamline regulation**
- **Access markets**

…with two priority initiatives

- **Freeze on excise tax & broader reform**
- **Establish 'Spirits Australia'**

Notes: (1) Based on total export value traded in 2022.

Executive summary

Australia's spirits industry supports exports, tourism, regional communities and jobs

The economic benefits of Australia's spirits industry reflects many of our national economic priorities.

The industry currently supports more than $1.18 billion in economic activity and more than 7,600 FTE jobs spanning across manufacturing and wholesaling of spirits.

A large proportion of these jobs are in manufacturing and are located in regional areas. Almost half of Australia's 701 distillers are headquartered outside of capital cities.

Its regional roots means the spirits industry helps drive more domestic and international tourism in the regions.
The industry attracts 631,000 visitors annually. It is the fastest-growing tourist activity for overnight domestic visitors in Australia.

Nevertheless, the industry is still developing. It is primarily made up of small and emerging businesses. Constraints prevent these businesses from achieving scale. Almost 90% of distillers have fewer than 20 employees and 57% are less than five years old.

Exports for the spirits industry remain small when compared to the wine industry, as well as to its international peers. Australia exported $210 million in spirits in 2022 compared to $2.1 billion for wine. Australia's spirits exports ranked 29th in the world by trade value while our wine exports rank 6th.

The spirits industry is being prevented from achieving its full potential. There is a big opportunity to grow the Australian industry – for the benefit of the economy, employment, our manufacturing sector and regional communities.

The Australian spirits industry has the potential to be at least a $1 billion export industry by 2035

We used a gravity model to estimate how far Australia is falling below its potential as a global spirits exporter. There are specific characteristics that give a country the potential to be a major spirits exporter, and Australia ticks many of these boxes. These include access and connections to growing markets, local industry development and complementary industries.

The results of our modelling show that if Australia was to address the barriers currently constraining its potential, exports could be 79% higher. Our modelling shows that much of Australia's export potential is not being realised in key markets in Asia, such as India.

If Australia was to realise this export potential, our spirits exports could reach $1 billion by 2035.

This would translate to an additional $111 million in economic activity and more than 878 FTE jobs, which would support regional and remote areas and grow jobs for women and young people in manufacturing.

Policy and regulatory barriers, particularly high excise tax, are preventing the industry from reaching its potential

Our modelling shows that the most significant factors impacting our trade potential are alcohol prices and excise tax, along with trade support and conditions, country branding and ease of doing business.

Australia's excise tax for spirits is one of the highest in the world and is constricting the ability of distillers to attract investment or reinvest in their business to achieve scale.

Some distillers which are already at a scale to export are also finding it challenging to expand overseas due to low global recognition of Australian spirits, and significant upfront costs in marketing abroad.

While there is some government support for distillers looking to export, this is often not tailored to the industry's needs which are distinct from industries such as wine.

The Government can help unlock the potential of the spirits industry to capture this $1 billion export opportunity

There is growing global demand for premium spirits, particularly in neighbouring countries in Asia. Australia's spirits industry is at an inflection point where there are a significant number of small distilleries with strong potential to grow under the right conditions.

The Government could play a pivotal role in catalysing this industry to grow, which would also meet many of its own priorities – such as growing manufacturing and regional jobs.

The Government can work with the industry to attract investment, build industry capability, streamline regulation and provide access to markets.

Lessons from the Australian wine industry, as well as in UK and Japan, show that a freeze on the excise tax and consideration of broader tax reform, as well as establishing 'Spirits Australia', are two immediate steps the Government can take to generate significant value for the industry.

This would help set the industry on a path to becoming another Australian export powerhouse, just like our wine industry, with the jobs, growth and skills that come with it.


TARE 13·1 kg
1100
TARE 13·2 kg
2100
TARE 13·1 kg
TARE 11·3 kg
SBD
TASMANIAN

SECTION 1

Australia’s emerging spirits industry supports exports, tourism, regional communities and jobs

2 The Australian spirits industry has the potential to be a $1 billion export industry by 2035

3 Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its $1 billion potential

4 The Government can help unlock the potential of the spirits industry to capture this $1 billion export opportunity

5 Appendix

The economic benefits of Australia's spirits industry reflects many of our national economic priorities

Australian Spirits Industry Pillars

01. Domestic sales
Through off-premise sales, wholesalers or distributors within Australia

02. Tourism
Through on-premise and distillery door sales to domestic and international visitors

03. Exports
Through off-premise, wholesalers or distributors outside of Australia

Benefits of the Australian Spirits Industry

Growing Manufacturing Jobs
The spirits industry supports **5,700** FTE jobs in manufacturing

Supporting Small Business
The majority of businesses in the spirits industry are small businesses, with **88%** employing less than 20 people

Empowering Regional Communities
The spirits industry has a strong presence in regional Australia, with **almost half of distillers located outside of capital cities**

Creating Export Opportunities
The spirits industry presents a significant opportunity to expand with increasing global demand for premium craft spirits

Generating Tourism
The spirits industry attracts over **630,000** visitors annually[1]

Supporting diversity and young people
The spirits industry has a greater gender balance relative to wine and beer sectors and **more than half** of workers are under the age of 35

Notes: (1) Includes only domestic overnight visitors as day visitor and international visitor data not available.
Sources: Australian Distillers Association, Deloitte (2024) *Australian Distillers Survey*, Tourism Research Australia, Mandala analysis.

Spirits manufacturing and wholesaling supports $1.18 billion in economic activity and 7,600 jobs

The manufacturing and wholesaling of spirits supports $1.18 billion in direct economic contribution and 7,600 FTE jobs.

The jobs that come from this economic activity primarily come from manufacturing. 5,700 FTE jobs are supported by spirits manufacturing, which highlights the size and importance of this growing sector in Australia. The strong base of manufacturing jobs that come from the spirits industry is closely aligned with national policy priorities to revitalise manufacturing and sovereign capability.

Expanding the definition of the Australian spirits industry to also include economic activity from retail and hospitality means this contribution grows to $4.7 billion and 51,000 jobs.

The economic contribution of an industry to the economy is typically measured through gross value add and employment. Gross value add refers to the contribution to the economy made through manufacturing, services and wages. For the spirits industry, this may include cost of raw materials and wages of producers. This measurement allows us to understand the contribution of industries to GDP and avoids double counting.

Total direct value add and employment from manufacturing and wholesale in the spirits industry

When we include contributions to retail and hospitality, the total direct economic contribution of the spirits industry increases to $4.7 billion and 51,000 jobs.

Sources: Australian Distillers Association, Deloitte.

Australia's distilleries are predominantly small, emerging businesses, with a strong regional presence

Of the 701 spirits manufacturers in Australia, the majority are small, emerging businesses. Nine of ten Australian distillers have fewer than 20 employees and 57% are less than 5 years old.[1]

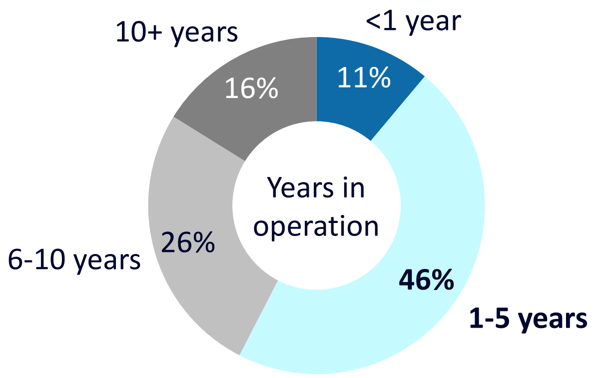
New South Wales and Victoria account for the largest share, with 48% of distilleries located in the two states.

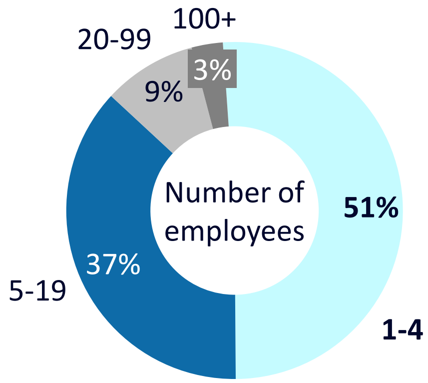
However, Tasmania and South Australia overrepresent in their share of distilleries relative to the number of businesses. Around 11% of Australia's distilleries are located in Tasmania, despite Tasmania only accounting for 2% of Australia's total businesses. Similarly, South Australia is home to 15% of Australia's distilleries, but only accounts for 6% of total businesses nationally.[1]

Importantly, almost half (48%) of distilleries are located outside of state and territory capitals and play an important role in regional communities.[2] In Queensland, 50% of surveyed businesses were in regional areas.

Breakdown of distilleries by years in operation and number of employees

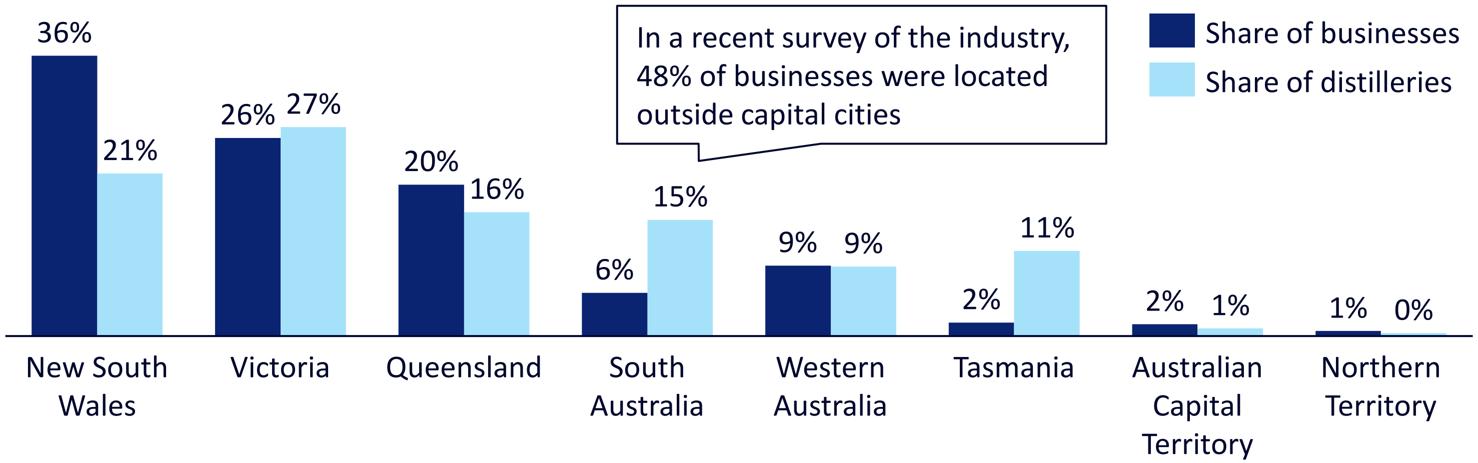
% of businesses, 2023, Australia





Share of total businesses and distilleries by state and territory

% of businesses[1] and % of distilleries, 2023, Australia



Notes: (1) Excludes non-employing businesses, (2) Deloitte.
Sources: ABS, Deloitte, Mandala analysis.

Distillery visits are the fastest-growing tourist activity for overnight domestic visitors in Australia

Growth in visits to distilleries by domestic overnight visitors increased by 16% each year between 2019 to 2022.[1] In 2019, 407,000 domestic travellers visited a distillery as part of an overnight trip, and this grew to 631,000 in 2022. This number is higher when we include domestic, day-only visitors. In FY22 and FY23 there were 152,000 and 204,000 domestic day-only visitors to distilleries, respectively.[2]

The pace of growth for distillery visits outpaces wineries and breweries, which grew at 5% and 9% per year, respectively between 2019 and 2022. But the growth in visits to distilleries is growing from a lower base. In 2022, almost 5 million people visited wineries and 1.7 million visited breweries.

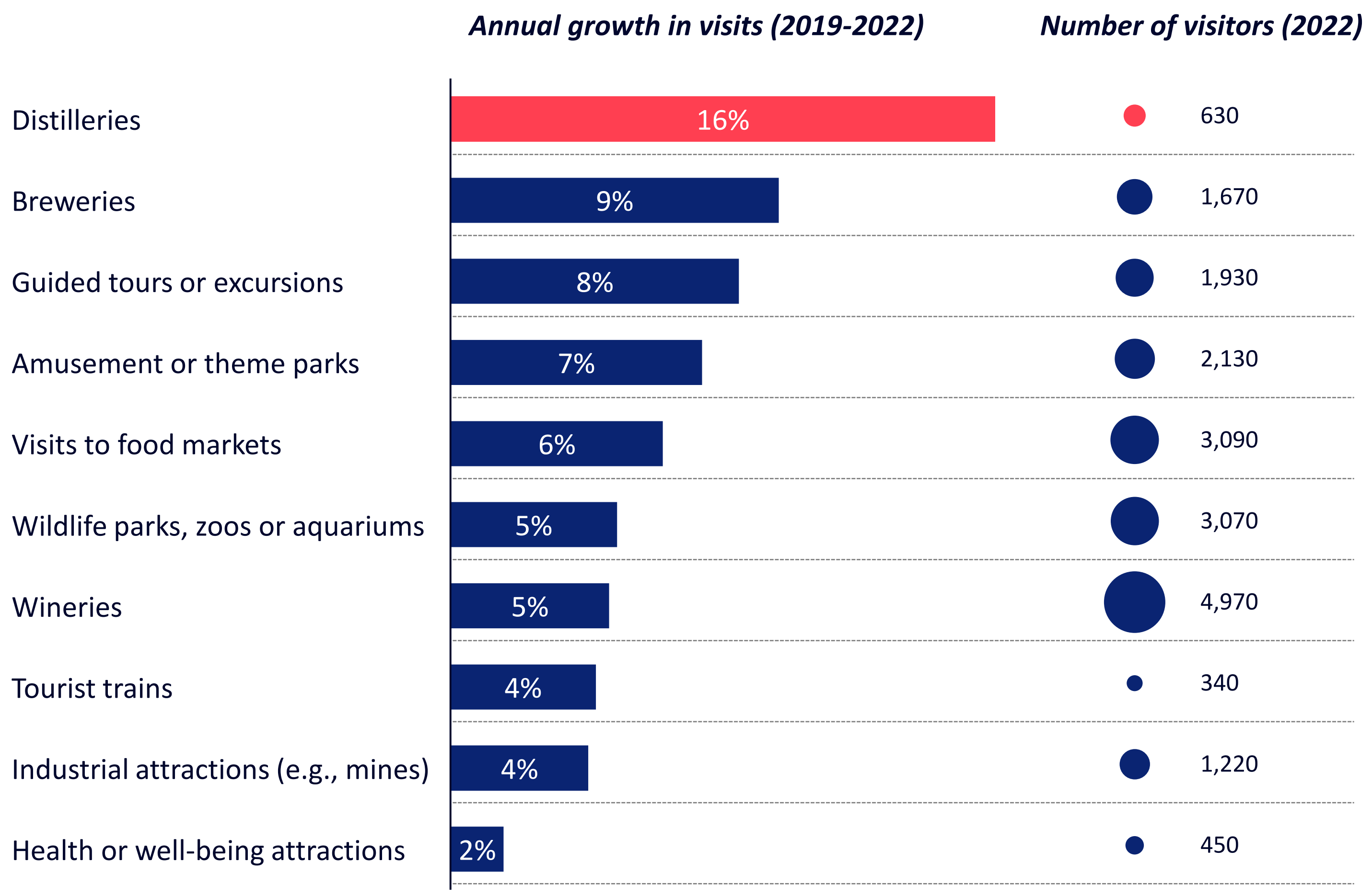
Domestic overnight trips typically account for three-quarters of total annual domestic tourism expenditure and spending on these visits is typically 6x higher compared to a day trip.

Domestic overnight visitors to distilleries spent an average of $343 per trip, higher than the average spend per trip at breweries and wineries which was $319 and $325 respectively.

Four Pillars gin in Healesville in Victoria is one distillery which is capturing this growing interest in distilleries as a tourist destination. Four Pillars is the most visited destination in the Yarra Valley region. In 2022, it reopened its visitor centre after a $7m renovation that tripled visitor capacity at their Healesville site.

Change in overnight domestic visitors and total visitors by activity

Domestic overnight visits by leisure activity, % annual growth 2019-22, # of visitors '000

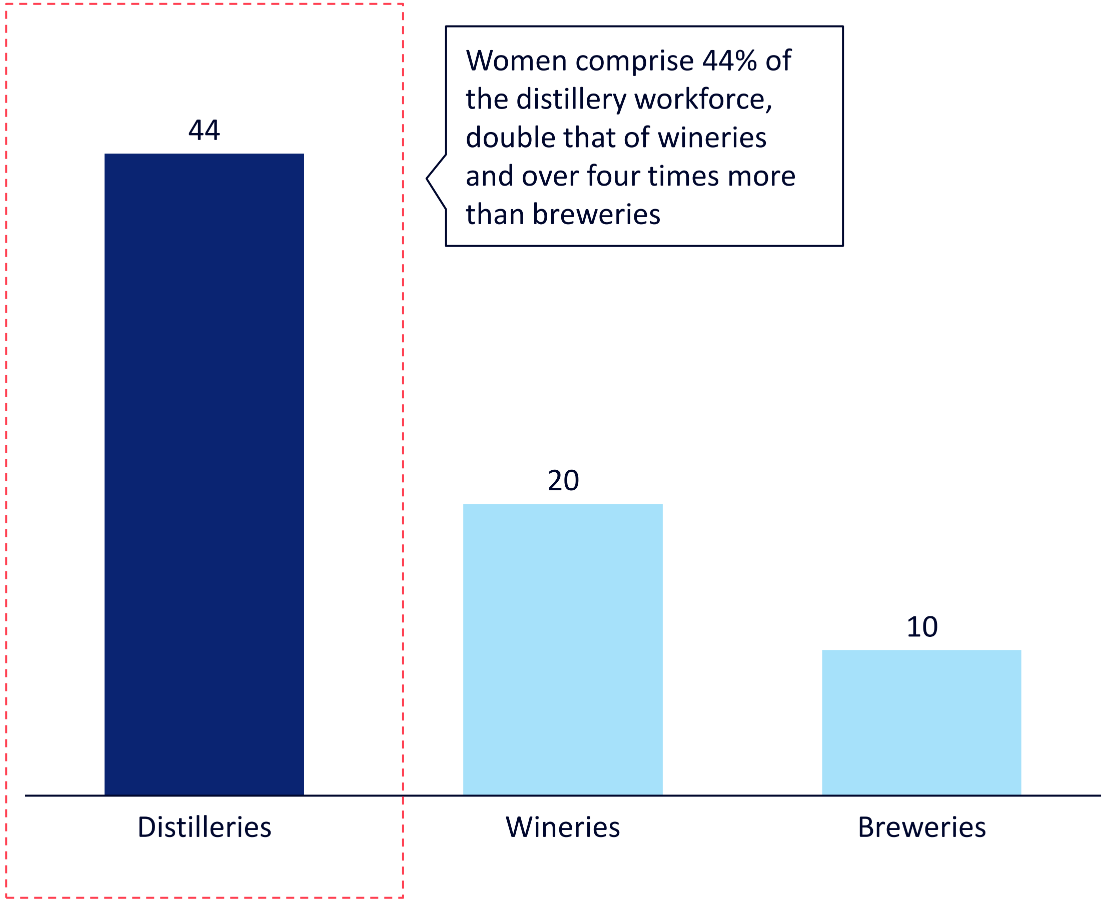


Notes: (1) Includes those who have taken a trip at least 40km away from home for at least one night and less than one year. (2) According to Deloitte's Spirit Industry Survey.
Sources: Australian Distillers Association, Spirits and Cocktails Australia (2022) *Unleashing the potential of the spirits industry*, Tourism Research Australia (2021) *Domestic tourism forecasts,* Tourism Research Australia (2023) *Tourism purpose of travel for overnight domestic travellers,* Victorian State Government (2019) *Guide to Tourism Data Sources, Methodologies and Definitions,* Broadsheet (2022) *After a Colossal $7 Million Expansion, Victoria's Four Pillars Reasserts Itself as a World-Class Gin Destination,* Deloitte (2024) *Australian Distillers Survey*, Mandala analysis.

The spirits industry has a better gender balance relative to the wine and beer industries and employs a large proportion of young workers

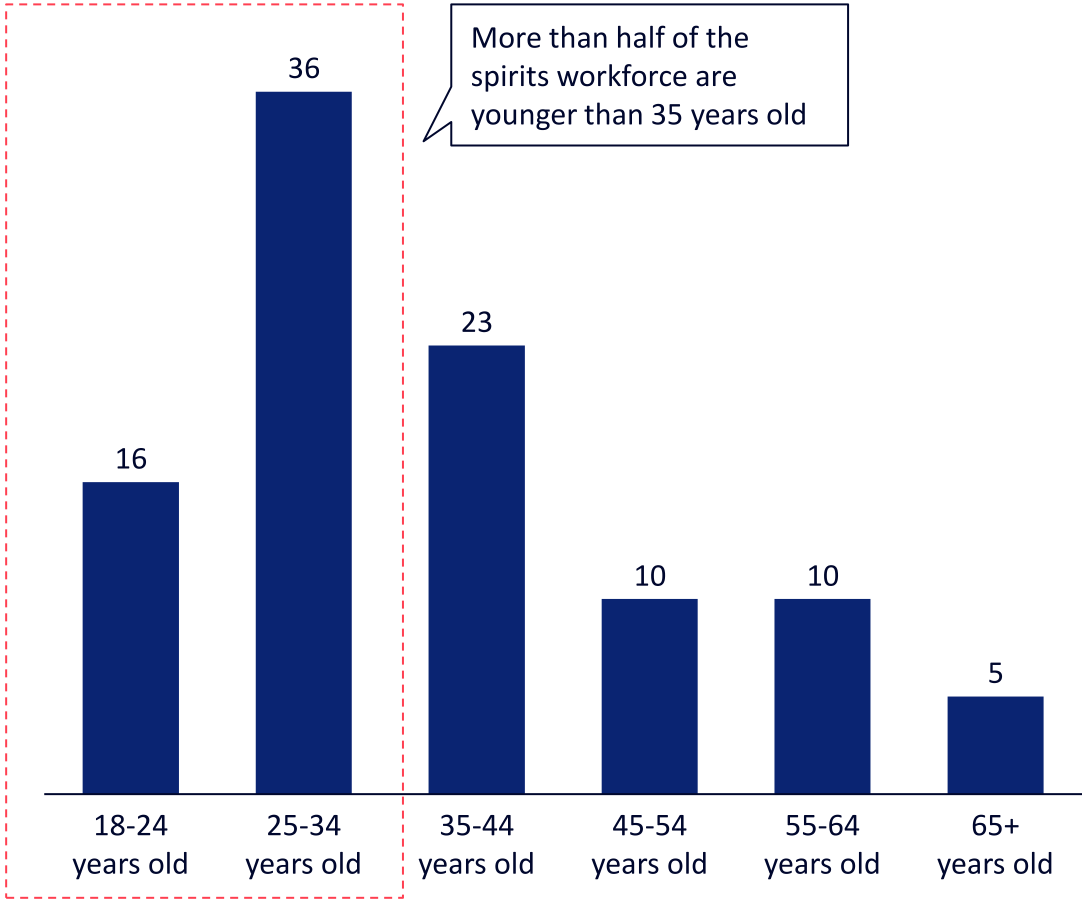
Proportion of women across alcoholic beverages industry

% of workforce, 2021



Age distribution of spirits workforce

% of workforce, 2023



Sources: ABS, Deloitte (2024) *Australian Distillers Survey*.

Australia exported $210m (US$146m) in 2022 to key trade partners including New Zealand, China, and the USA

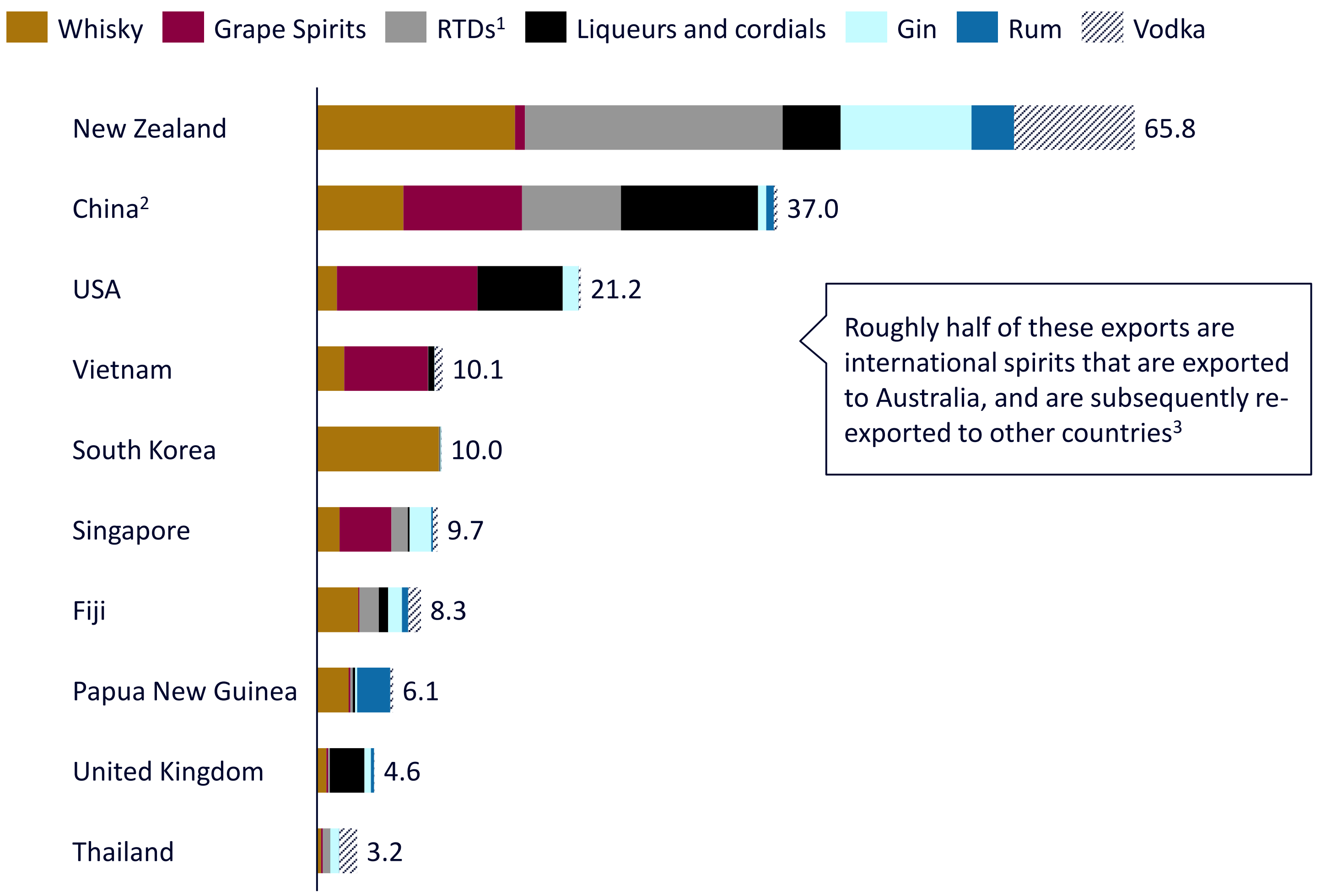
Over half of Australia's spirits exports are to key trading partners, New Zealand, China, and the United States, who primarily import Australian whisky, grape spirits and RTDs. These countries have consistently been top destinations for Australian spirits, followed by Vietnam, Singapore and South Korea, underscoring the importance of Asia as an export market.

Our exports with top partners vary according to cultural and social preferences. In 2022:

- New Zealand imported $65.8m of Australian spirits, comprising primarily RTDs, whisky, and gin;
- China imported $37m of Australian spirits, primarily grape spirits, whisky and RTDs;
- USA imported $21.2m of Australian spirits, primarily grape spirits such as brandy, and liqueurs and cordials; and
- Other jurisdictions, such as Vietnam and South Korea imported Australian spirits including liqueurs, grape spirits and whisky.

Australian spirits exports by country and type of spirit

Millions of A$, 2022



Notes: (1) This includes other not further defined spirits. (2) Inclusive of overseas territories. (3) In FY23, Australia exported almost $112m, excluding re-exports. 51% of these exports were re-exports which means Australia imported, and then re-exported the spirits to a different country. Re-exports also include spirits that are imported, and then bottled, blended, cleaned or packaged in Australia before being re-exported out again.

Sources: UN Comtrade (2022) *Trade data,* includes top export destinations only, ABS (2018) *International Merchandise Trade, Australia: Concepts, Sources and Methods.*

Australia's spirits exports rank 29th globally by trade value at US$146m (A$210m) while our wine exports place sixth in the world at US$1.5b (A$2.1b)

Top spirits and wine exporters by trade value in US$

Billions of US$, 2022

Wine exporters

Rank	Country	Trade value
1	France	US$12.9b
2	Italy	US$8.3b
3	Spain	US$3.2b
4	Chile	US$1.9b
5	USA	US$1.5b
6	Australia	US$1.5b (A$2.1b)
7	New Zealand	US$1.4b
8	Germany	US$1.1b
9	Portugal	US$1.0b
10	Argentina	US$0.8b

Spirits exporters

Rank	Country	Trade value
1	United Kingdom	US$9.3b
2	France	US$6.1b
3	Mexico	US$4.2b
4	USA	US$2.4b
5	Singapore	US$2.0b
6	Italy	US$1.8b
7	Germany	US$1.6b
8	Ireland	US$1.6b
9	Netherlands	US$1.3b
10	Spain	US$1.1b
⬇	⬇	⬇
29	**Australia**	US$0.1b (A$0.2b)

Sources: UN Comtrade (2022) *Trade data.*

Australian spirits exports are significantly lower than wine exports

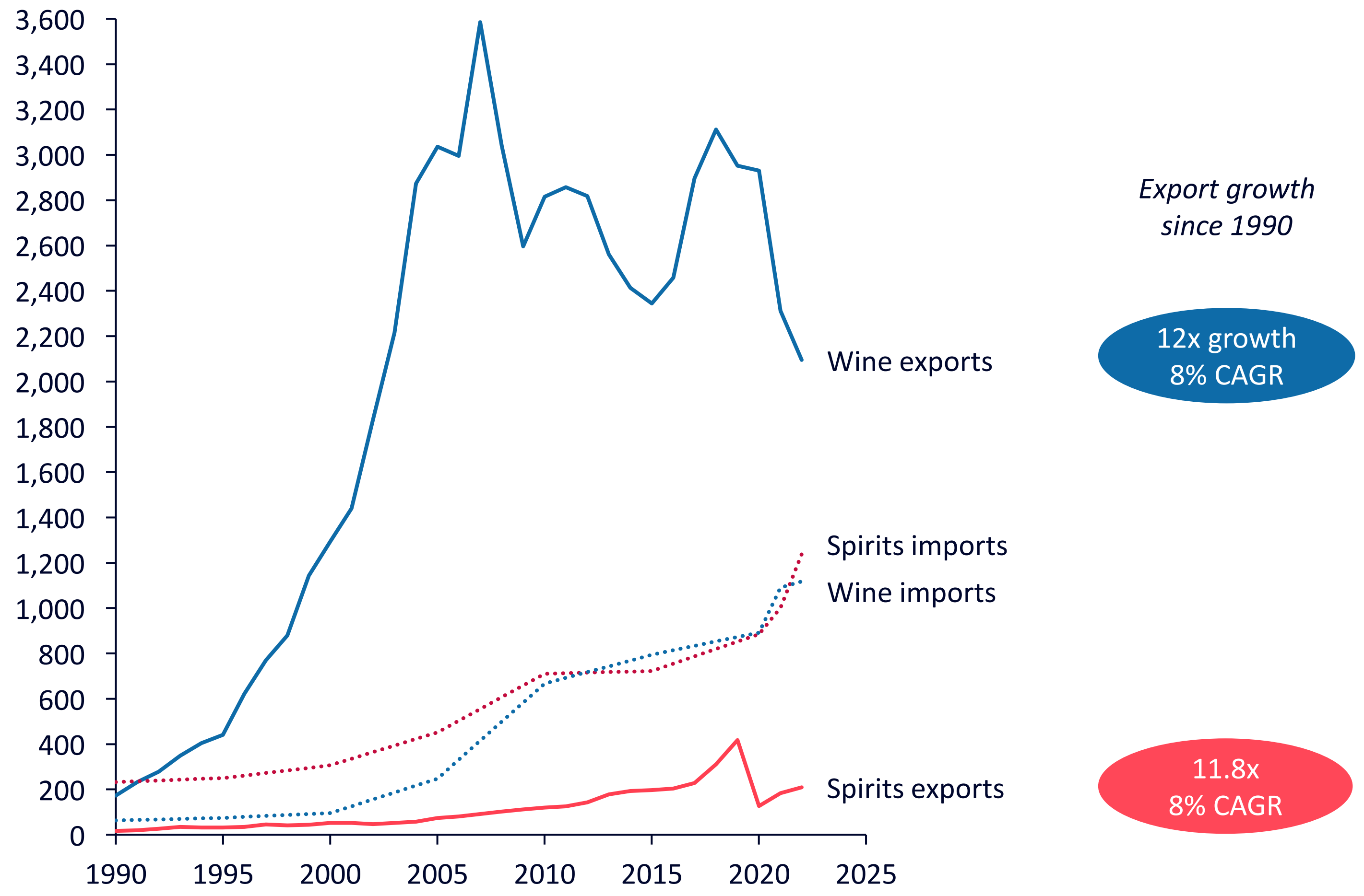
Australia is traditionally a net importer of spirits and a net exporter of wine. This status quo has been retained over the last thirty years.

Growth in spirits exports have been similar to the growth in wine exports over the last 30 years. Both have grown their export value at 8% annually between 1990 and 2022, and both were around 12x the size of what they were in 1990.

Nevertheless, spirits exports are growing from a low base. Spirits exports are about one tenth the size of wine exports, in 2022 this was $210m (US$146m) and $2.1b (US$1.46b) respectively. Importantly, this gap was also much larger during years where wine exports peaked, with spirits exports being one twentieth of wine exports in 2012. This gap has narrowed following a steep decline in wine exports after Chinese trade restrictions were imposed on Australian wine.

Australian wine and spirits exports

Trade value, millions of A$, Australia, 1990-2022



Sources: UN Comtrade (2022) *Trade data*, ABS exports data, Wine Australia (2023) *Export report.*


SPIRIT VAT
No. 9

SECTION 2

The Australian spirits industry has the potential to be a $1 billion export industry by 2035

1 Australia’s emerging spirits industry supports exports, tourism, regional communities and jobs

3 Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its $1 billion potential

4 The Government can help unlock the potential of the spirits industry to capture this $1 billion export opportunity

5 Appendix

Australia has many of the right building blocks to develop a world class spirits industry, including a growing local industry, access to markets and adjacent industries

Key building blocks for developing a world class spirits industry

Levers	Building blocks		Australia's performance
Demand side	Access to growing markets		▪ Proximity to Asia, with large diaspora populations
	Country branding and awareness		▪ Australia's brand as a country is generally strong with a reputation for quality, safety and compliance, coupled with iconic geographic sites and an attractive lifestyle ▪ There is a lack of international awareness of Australia's spirits industry
	Domestic market size		▪ Strong demand for Australian made produce, including spirits ▪ Australia's domestic market is small relative to other jurisdictions and has a history of consuming imported spirits
Supply side	Local industry		▪ Strong growth in the number of new distilleries in Australia
	Workforce		▪ High-quality workforce with transferable knowledge and skills from the beer and wine industries
	Adjacent industries		▪ Well-established presence of primary materials for production such as barley and sugar cane ▪ Complementary services and products such as bottle manufacturing used in the wine industry
	Networks and distributors		▪ Some networks and distributors to expand into export markets, but the scale of exports for spirits means this is still somewhat limited
	Operational costs		▪ High costs of inputs (such as labour) and business expenses (such as compliance costs)
	Investment		▪ Relatively difficult investment environment, both from local and international investors (including large drinks companies), with high excise tax being a key driver
Government	Alignment with government objectives		▪ Strong alignment with government objectives including local manufacturing capability, regional jobs, small business, exports and tourism
	Trade support		▪ Liberalised trade with major markets and ambition to grow trade and investment in the region, noting spirits are excluded from some FTAs and still face high tariffs to countries such as India ▪ High levels of trade support built into government programs that can be utilised by the spirits industry
	Regulatory environment		▪ Excise taxes have created a market structure that favours small distilleries unable to reach proper scale for exporting

Sources: Stakeholder consultation, desktop research, Wharton and US News (2020) *Best countries 2020: A Study on the power of nation brands in global markets survey of 21,400 people globally across 73 countries.*

We used a gravity model to estimate Australia's potential as a spirits exporter and benchmark our performance against high-performing peers

MODELLING AUSTRALIA'S EXPORT POTENTIAL FOR SPIRITS

01 Understand factors that influence spirits trade potential

Factors considered include:

- The size of the economy
- Relative distance between countries
- Common colonial background
- Shared language
- Social and cultural connections

02 Model trade potential of countries

Use factors identified to understand how far a country's actual trade performance for spirits diverge from their optimal trade performance, based on factors that influence trade

03 Benchmark Australia against other country's trade potential

Benchmark Australia's trade performance against top exporting countries to identify how much it can grow

04 Identify and quantify barriers to reaching trade potential

Identify factors that are constraining Australia from meeting its trade potential including:

- Cost of alcohol (including excise tax)
- Country branding
- Trade connections and relationships
- Ease of doing business

Limitations

Model estimates are based on existing markets, macroeconomic factors and trade data. These do not account for expansions into new markets and trends in consumer preferences or changes in future market or economic conditions.

Source: Mandala analysis.

Australia could increase its exports in spirits by 79% if its export potential was on par with top spirits exporters

The following results show Australia's export potential relative to other countries for spirits exports.

Modelling shows that while Australia performs better than the global average for spirits export potential, it is significantly behind global leaders. If Australia's spirits export potential were on par with the top 5 global spirits exporters, we could export 79% more than current levels.[1]

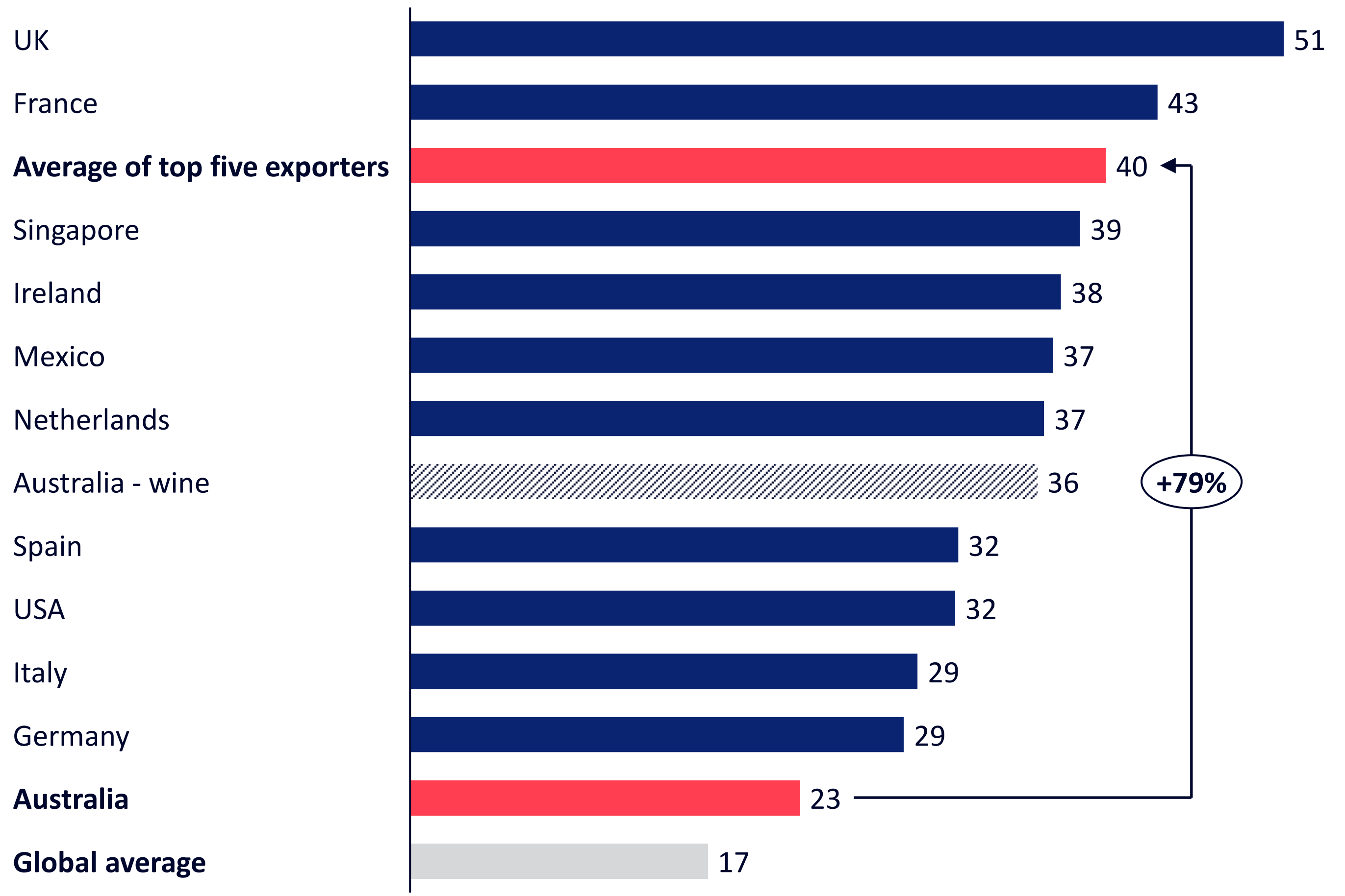
Trade potential is measured by an average trade efficiency score across trade partners for each country.[1] Among top exporters, the UK and France have the most efficient trade relationships for spirits, with an average score of 51 and 43 points, respectively.

Singapore is a smaller exporter by trade value compared to Mexico and USA, but its average trade efficiency exceeds its trade partners (at 39 points). This is in part because Singapore is a key intermediary to important Asian markets, including China, Vietnam, Thailand, Malaysia and Indonesia.

When comparing to Australia's performance for wine exports, we can see that its trade efficiency is close to that of the average top 5 exporters for spirits at 36 points.

Countries spirits exports performance, top exporting countries and Australia

Score out of 100, based on trade data between 2018-2021[1]



Notes: (1) Measured by trade volumes, performance measured against their top 25 markets. See appendix for further detail.
Sources: Mandala analysis.

Australia's spirits exports could reach $1b by 2035 if we realise the export potential of the industry

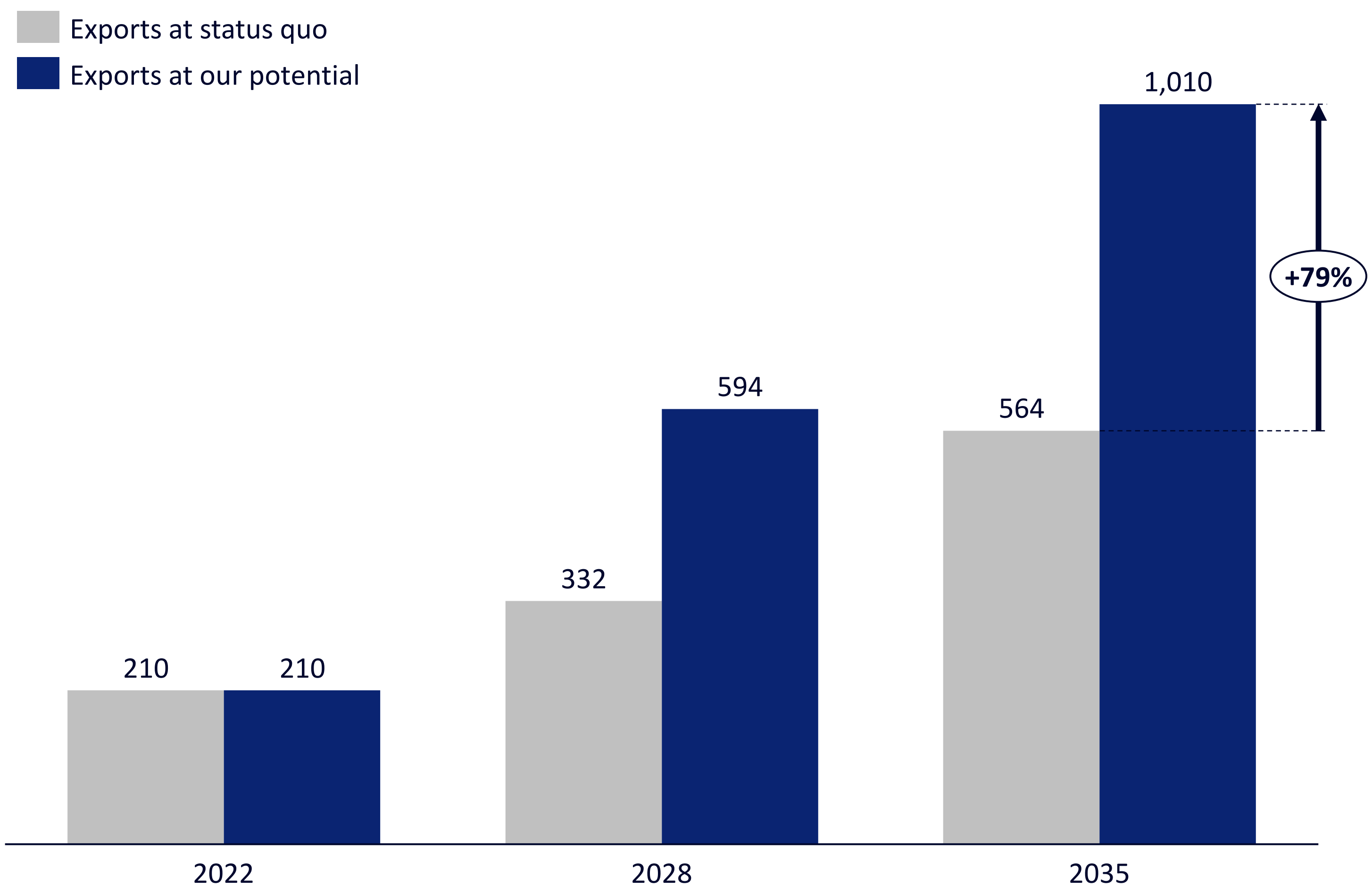
If Australia can meet its export potential, exporting as efficiently as the UK, France, Singapore, Ireland and Mexico, then annual exports could reach $1b by 2035. This uplift in export performance involves uplifting exports with our current partners and developing exports with new partners to unlock new trade markets.

By 2035, exports could be 79% higher than exports under the status quo, which would only be expected to reach $564m in annual exports by 2035. The status quo estimates assume that Australian spirits exports continue to grow at its current trajectory, based on growth rates over the past decade from 2012 through to 2022 and is consistent with other growth estimates.[1]

These figures also include re-exports of spirits, where goods produced overseas are imported and then re-exported out again from Australia. Although not manufactured in Australia, these activities contribute to the spirits industry's supply chain activity and are an important component in growing Australia's knowledge in the industry and status as a spirits exporter.

Australian spirits exports to 2035

Millions of A$, status quo vs. meeting export potential



Notes: (1) UN Comtrade (2022). See appendix for further detail.
Source: Mandala analysis.

If Australia was to meet its export potential, whisky would see the greatest uplift based on current export volumes

Contribution to uplift by spirit based on current export volumes
Share of total uplift, by type of spirit[1]

Top existing partners[2]	USA, China, UK	New Zealand, China, France	USA, China, Vietnam	New Zealand, Singapore, USA	China, USA, New Zealand	New Zealand, Thailand, Fiji	New Zealand, PNG

The USA is one of the world's biggest markets for whisky. In 2022 Australia was the 12th biggest nation importing whisky into the USA.

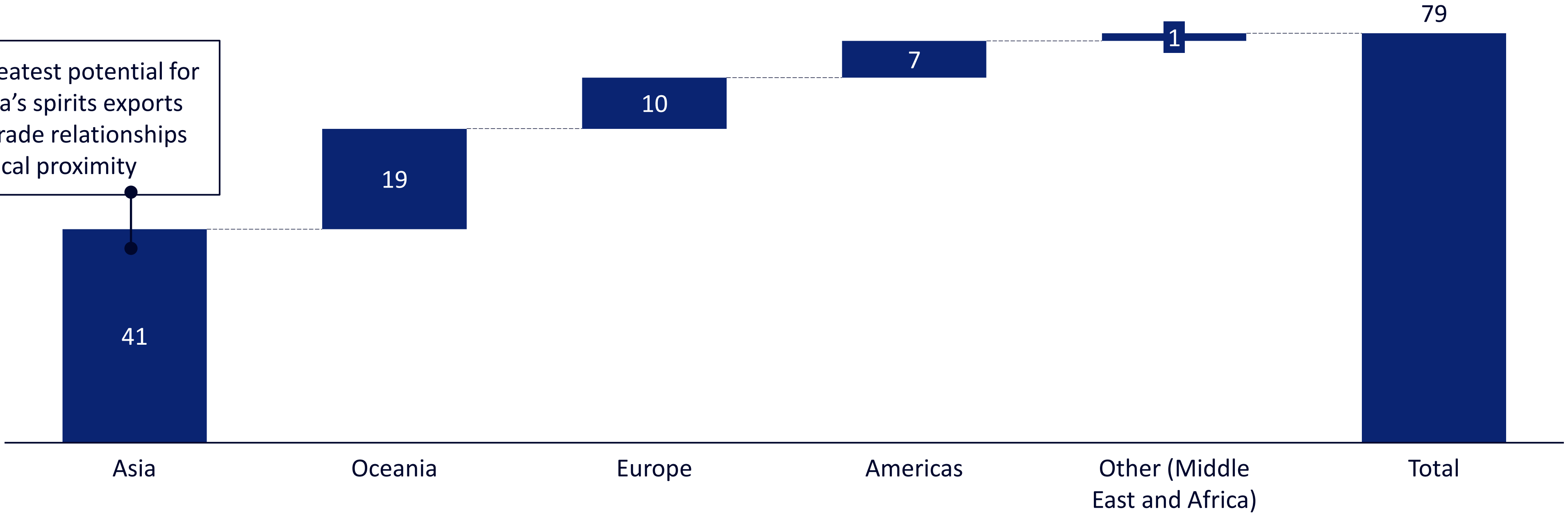
Notes: (1) Assuming consumption preferences and trading partners are consistent with 2022 levels. (2) Countries such as India currently have very small export volumes from Australia due to high tariffs for spirits.
Sources: Desktop research, UN Comtrade (2022) *Trade data,* Mandala analysis.

If Australia was to meet its export potential, Asia and Oceania would see the greatest uplift based on current export volumes given its proximity to Australia

Contribution to uplift by region based on current export volumes

Share of total uplift, by type of spirit[1]

Asia provides the greatest potential for expanding Australia's spirits exports based on existing trade relationships and geographical proximity



Potential partners with largest uplift[1]	India, Sri Lanka and S.E. Asia (e.g., Indonesia, Philippines)	New Zealand, Fiji	Germany, Ireland, Switzerland	Canada, Chile, Brazil	UAE, Turkey

Australia spirits exports accounted for less than 1% of imports to these countries.

While Canada, Chile and Brazil present the largest potential uplift opportunity for Australian spirits exports, the USA will continue to be a large market for spirits exports.

Notes: (1) Assuming consumption preferences and trading partners are consistent with 2022 levels. While countries such as India and the UAE present significant opportunities for uplift in exports, this would also involve addressing high tariffs on spirits that currently exist.
Sources: Desktop research, UN Comtrade (2022) *Trade data,* Mandala analysis.

India is the world's fastest growing market for whisky and presents enormous export potential for Australia

India's growing population and growing middle-class present enormous potential for Australia's spirits industry, particularly in whisky and premium spirits.

By 2030, there will be 150 million Indians who are of legal drinking age, accounting for 25% of the global increase. India's middle class is expected to reach 700 million by 2030. These changes accompany changing trends in alcohol consumption, with increases in social occasions involving drinking.

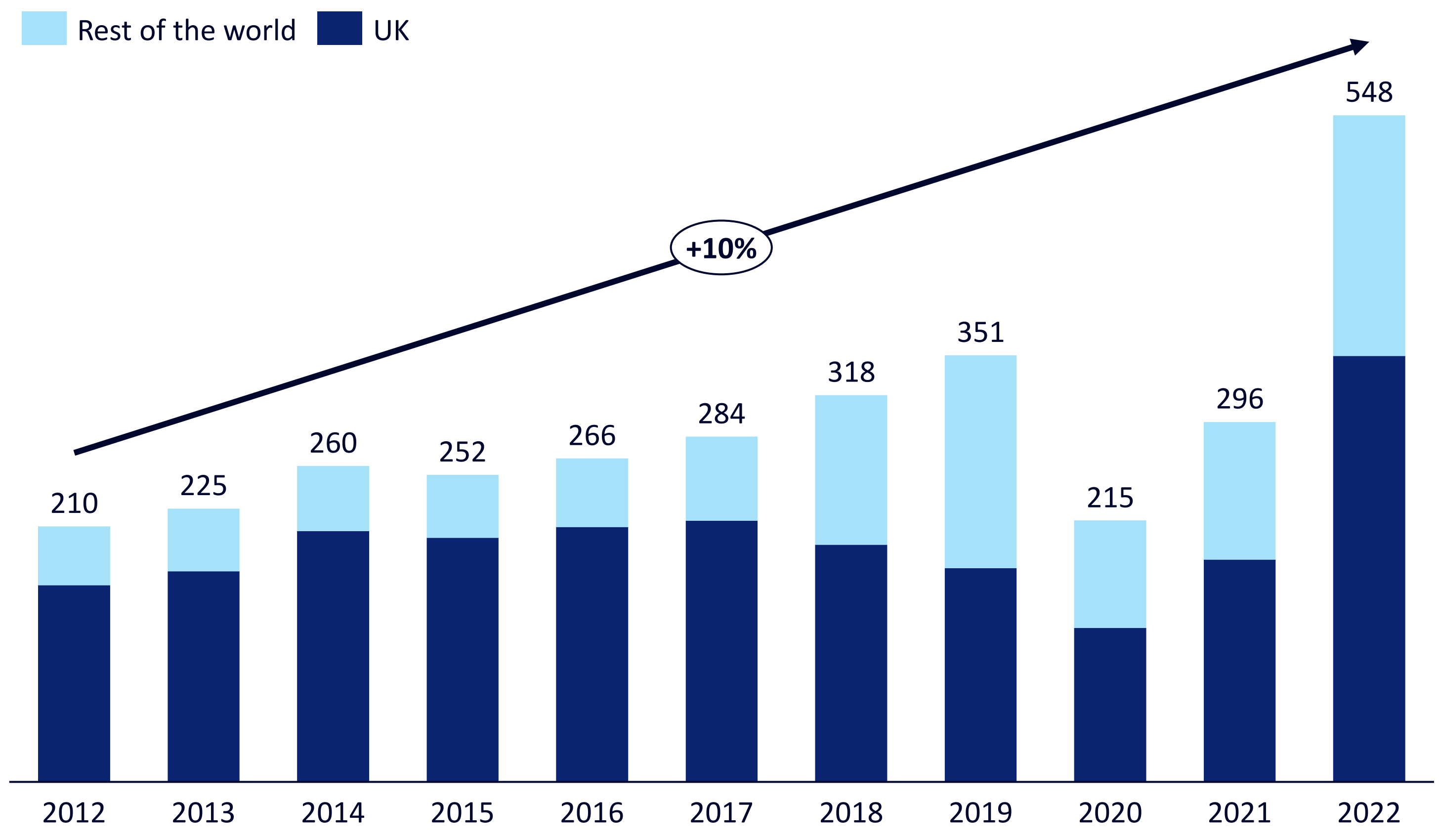
India is also the world's largest whisky market, which is continuing to grow quickly. Whisky sales account for 52% of retail sales volume in India, making it the most valuable category in the alcohol market.

Changes in consumer preferences for whisky are already apparent. Scotch whisky is the fastest growing and most profitable category – accounting for 13% of total whisky sales in India. In the last four years, premiumisation has seen growth in mid-priced scotch (10%) and primary scotch (17%). Imported scotches are growing much faster at 32% while lower price scotches sales are declining.

While India presents a significant opportunity for the Australian spirits industry, there are currently considerable tariffs on spirits imports. India currently levies a 150% tariff on imported liquor.

India spirits imports

Millions of US$, 2012-2022



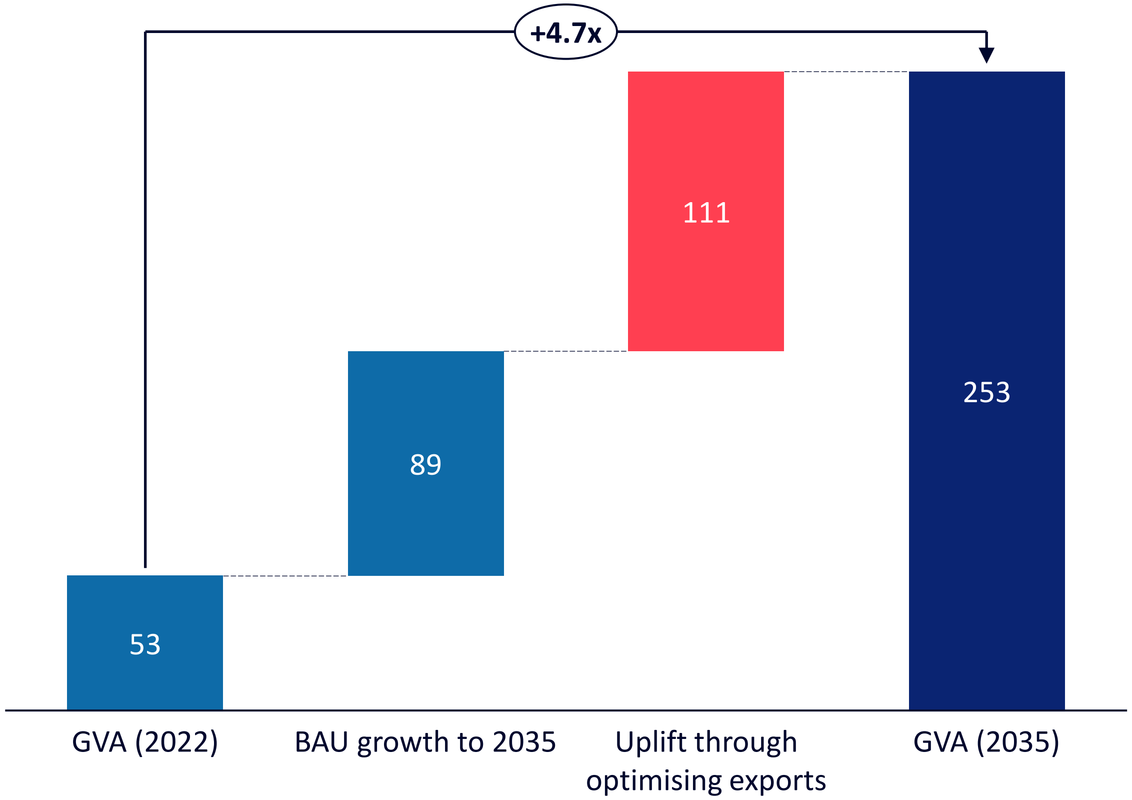
Australia currently exports low volumes of spirits to India. Australian spirits imports have never exceeded 0.15% of total spirits imports into India in the last decade. Modelling indicates that Australian spirits exports to India could grow to 65 times its current levels, if Australia was to realise its export potential, based on current trade levels.

Sources: Diageo (2023) *Capital markets event 2023,* UN Comtrade (2022) *Trade data,* The Spirits Business (2024) *Diageo: halving India tariffs would make 'meaningful difference',* Mandala analysis.

Reaching our export potential could generate a $111 million uplift in direct economic contribution by 2035

Direct economic contribution from spirits exports

Millions of A$

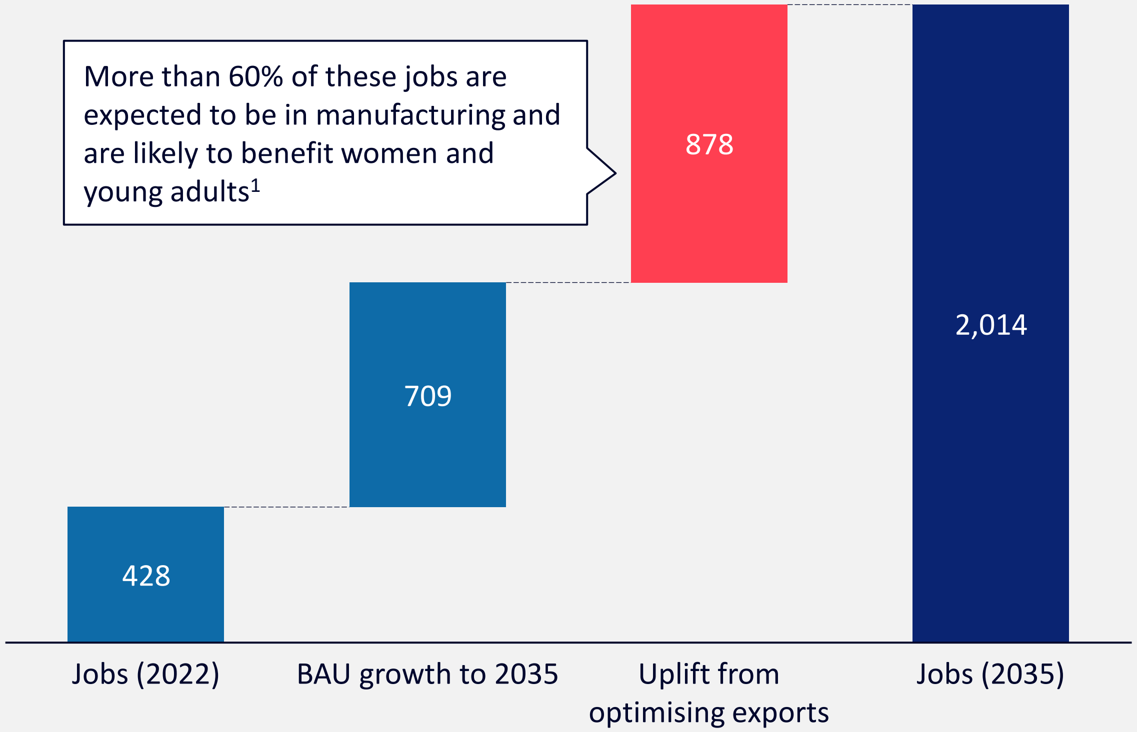


Notes: Includes manufacturing and wholesalers, and not retail and hospitality, based on FY23 estimates for GVA and FTE jobs from Deloitte analysis, (1) based on current workforce demographics, more women relative to the winery and brewery industry

This would also support an additional 878 jobs by 2035, twice as many jobs than currently exist for spirits exports

FTE jobs directly supported by spirits exports

Number of jobs



Sources: Mandala analysis, Deloitte industry report.

SECTION 3

Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its $1 billion potential

1 Australia’s emerging spirits industry supports exports, tourism, regional communities and jobs

2 The Australian spirits industry has the potential to be a $1 billion export industry by 2035

4 The Government can help unlock the potential of the spirits industry to capture this $1 billion export opportunity

5 Appendix

Several factors are stopping Australia from achieving its export potential, with excise tax at the top of the list

Modelling identified key variables influencing spirits trade potential. The statistically significant factors identified include:

- Cost of alcohol (including taxes) – countries with a higher cost of alcohol were less likely to realise their trade potential. Costs of alcohol include costs of production, excise taxes, and market conditions. Australia has the 23rd most expensive alcohol prices in the world and is more expensive than top exporting countries such as the UK, the USA and France.
- Country branding – countries with higher perceptions of branding traded spirits closer to their potential. Examples where country brand has helped with exports include Grey Goose (France), Hibiki (Japan) and Patron (Mexico). In each case, brands have leveraged their country's heritage for their marketing and export strategy.
- Trade support & conditions – countries with more favourable trade support and conditions were more likely to meet their export potential. Australia has 18 FTAs covering 29 countries. Comparatively, top spirits exporters such as the UK has 38 agreements covering 99 jurisdictions. These agreements facilitate trade and investment and support stronger ties between countries.[1] Since the Thailand-Australia FTA came into force on 1 January 2005, for example, trade in goods have more than doubled.[2]
- Ease of doing business – countries with more supportive and favourable business environments were more likely to trade closer to their potential.

Statistically significant factors influencing export potential

Factor		Impact	Description
1 Cost of alcohol and excise tax		▼	Countries with higher alcohol prices, which includes excise taxes, were less likely to meet their trade potential
2 Country branding		▲	Countries with stronger brands were more likely to meet their trade potential
3 Trade support & conditions	Trade support	▲	Countries with more FTAs were more likely to meet their trade potential
	Favourable trading conditions	▲	Countries with more efficient trade systems (such as paperwork, computer systems) were more likely to meet their trade potential
4 Ease of doing business[3]		▲	Countries with better systems and favourable business environments were more likely to meet their trade potential[1]

Sources: (1) DFAT (2023) *About Free trade agreements,* (2) Adelaide University (2023) *Realising the trade and investment potential between Thailand and Australia,* (3) World Bank (2019) *Ease of Doing Business rankings*, topics included in the index include: Starting a business, paying taxes, enforcing contracts, getting credit.

1 Excise tax

Australia's excise tax on spirits is higher than for beer and wine and significantly higher than other countries

Australia's excise tax on spirits is significantly higher when compared to other alcoholic beverages in Australia and is higher than other comparable countries.

As of February 2024, excise tax for a standard drink of spirits was $1.29, three times higher than draught beer at $0.43, and 5.3 times higher than wine at $0.24.[1]

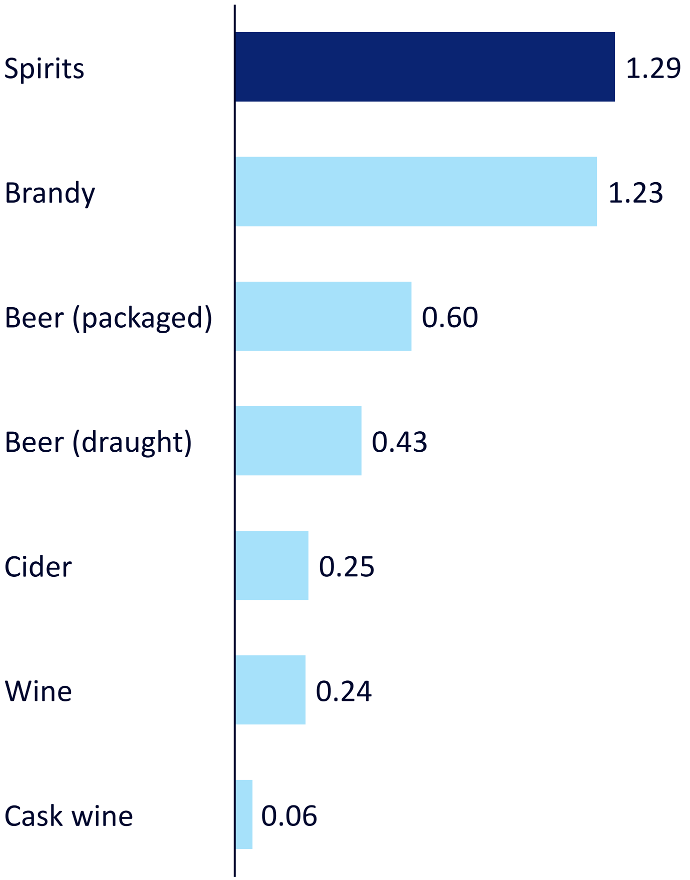
This has significant implications on the competitiveness of spirits relative to other beverage types domestically and makes it challenging for distilleries to scale and attract investment. A survey found 59% of distillers see excise tax as a key barrier to industry growth. A third of respondents said that excise tax was having a severe impact on prices of products and more than half listed investment in facilities as being severely impacted.

Australia's excise tax on spirits is significantly higher than comparable countries such as Ireland, New Zealand, the UK, Canada, the USA and Japan. As of February 2024, Australia's excise tax on a litre of alcohol was $101.85, compared to Ireland and the UK at $69.50 and $59.89 respectively.

Higher excise taxes relative to other countries deters foreign direct investment (FDI), which is a significant driver of industry growth and export growth. A survey of 227 distillers showed only 3% were currently using FDI as a source of investment.

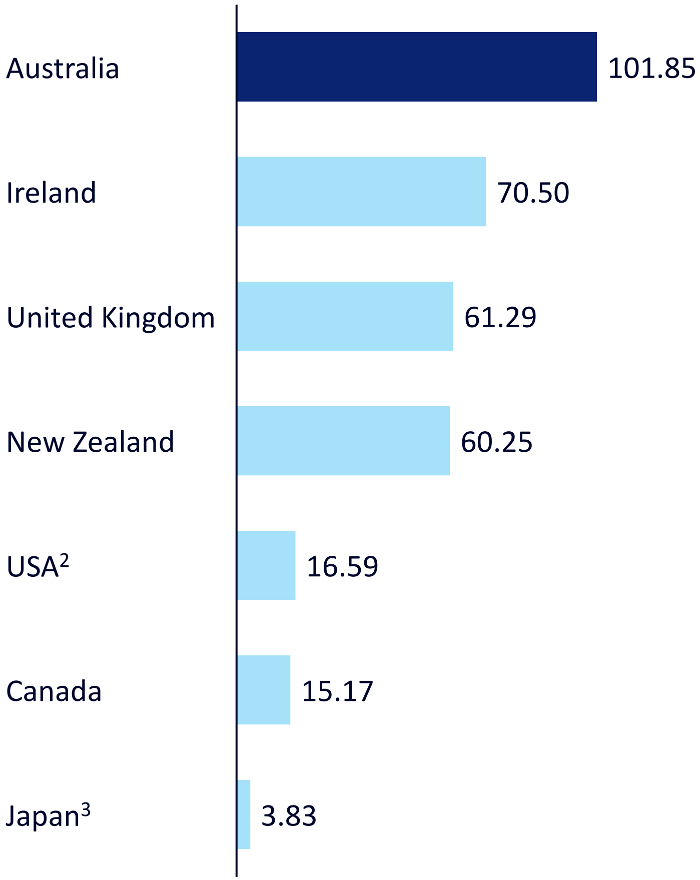
Excise tax relative to other alcoholic beverages

$ tax per standard drink from 5 February 2024[1]



Excise tax for comparable markets

A$, per litre of alcohol from 5 February 2024



Notes: (1) Berri Estate 5L Dry Red cask wine, Wolf Blass Yellow Label Chardonnay wine, Somersby apple cider bottle, VB full strength draught beer, VS full strength packaged beer, St Agnes V.S brandy 700mL, Patient Wolf Melbourne dry gin. (2) Includes tax at federal level only; state taxes may add to this substantially and differ state by state. (3) Excise tax is for spirits up to 37% alcohol; tax rates increase incrementally, per additional 1% of alcohol content.

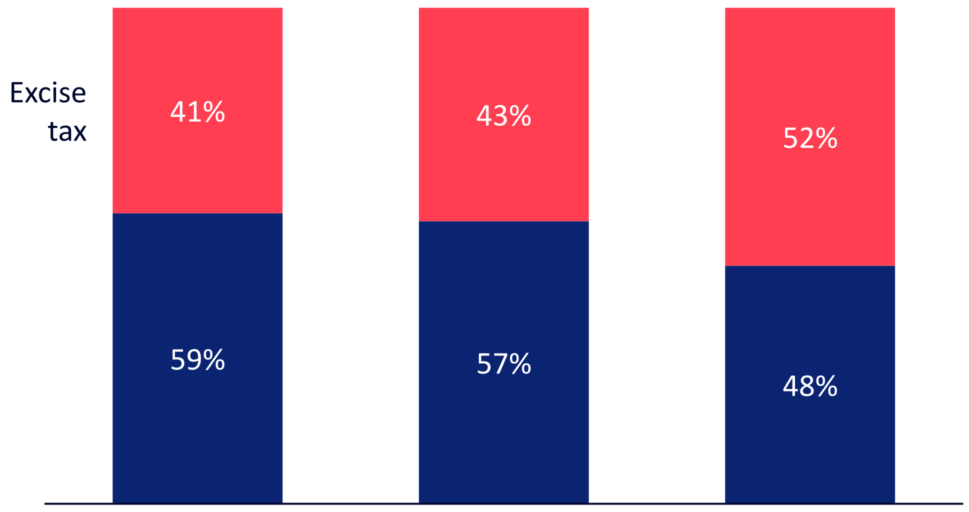
Sources: ADA, ATO (2024) *Excise duty rates for alcohol,* Deloitte (2024) *Spirits industry* survey, Japan Customs, desktop research, Mandala analysis.

1 **Excise tax**

Excise tax makes up a significant portion of spirits prices, in some cases more than half the cost of a bottle…

Example cost breakdown on a bottle of whisky, gin and vodka

Excise as % of price



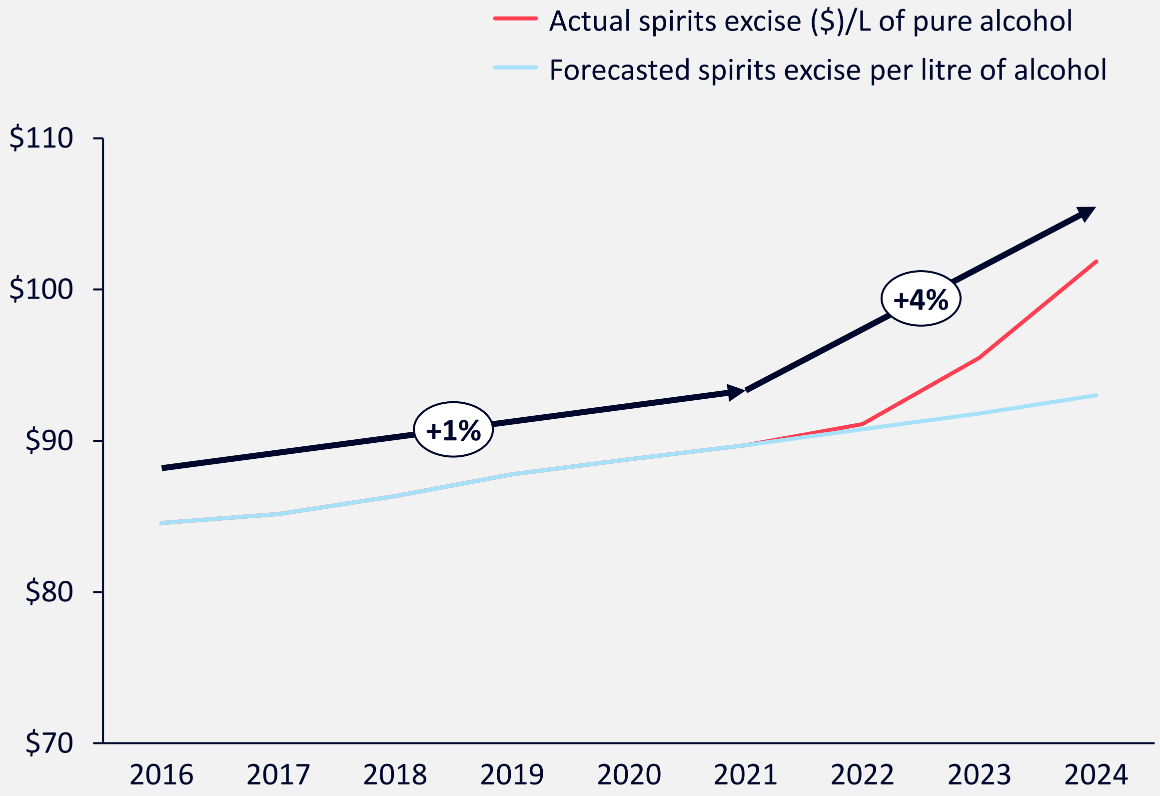
	Starward Twofold Double Grain Whisky, 40% ABV, 700mL	Four Pillars Rare Dry Gin, 41.8% ABV, 700mL	Archie Rose True Cut Vodka, 40% ABV, 700mL
Price	$68.90	$69.95	$55

Notes: Based on excise duty rates as of 5 February 2024 of 101.85c per litre.
Sources: ATO (2024) *Excise duty rates on alcohol,* desktop research, Mandala analysis.

…and has been growing 4x faster in the last three years compared to the preceding five

Forecasted vs. actual excise tax for spirits

August 2015 to February 2024



Sources: ADA, Mandala analysis.

The high excise tax is limiting distillers' ability to reinvest or attract investment, restricting growth of the industry

While there has an overall increase in the number of distillers in Australia, the average size of distilleries is declining, and many are not scaling because it is either too challenging or not worthwhile. This is primarily driven by the high excise tax, which is restricting business's ability to reinvest in their company and attract investment.

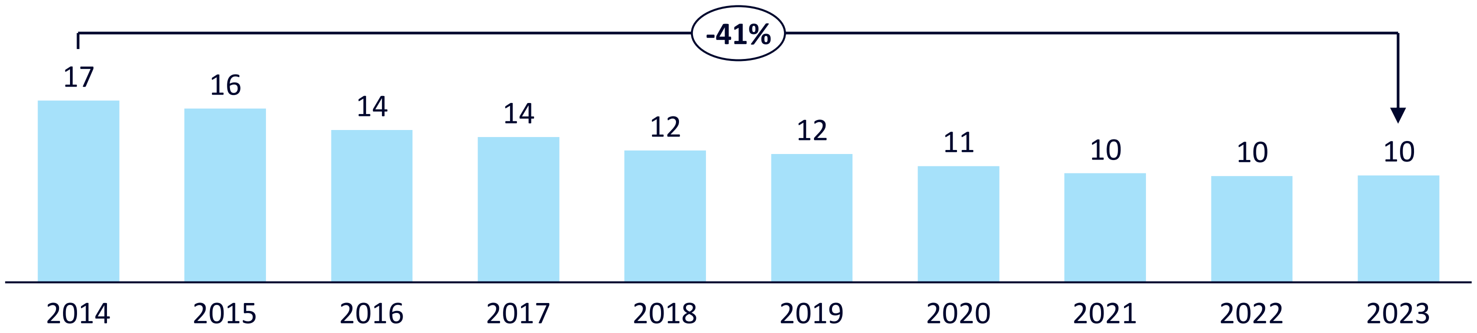
Between 2014 and 2023, the average headcount for distilleries declined from 17 to 10. In FY22, almost half of distillers had an annual revenue under $350,000.

Despite this, there is appetite for businesses to expand and scale. Most distillers would undertake some form of business expansion if there was to be a pause in the excise tax indexation. Only 19% of businesses said that they would save funds as a contingency.

Scaling and investment are integral to growing export markets. Exporting is capital intensive, and gaining scale domestically is an important factor in being able to move into export markets. Businesses earning less than $1 million were more likely to describe their business as 'not an exporter' (63%) compared to businesses earning over $2 million (16%).

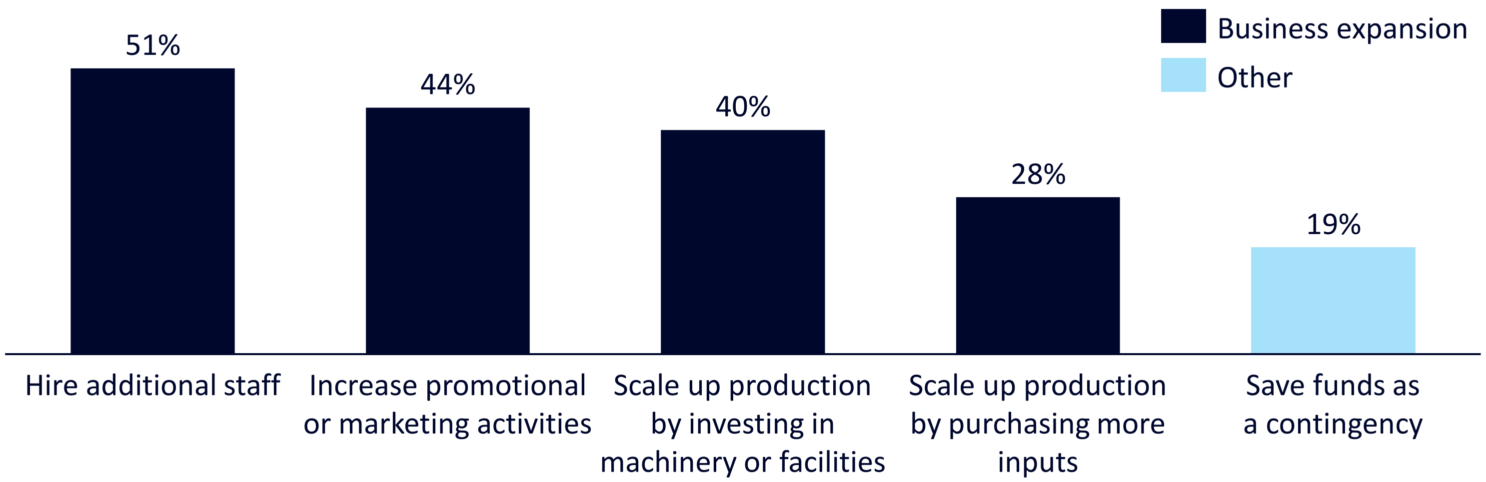
Average headcount per spirits manufacturer

Headcount, Australia, 2014-2023



What would businesses do if there was a pause in excise indexation?

% of businesses, n=191, Australia, 2023



Sources: IbisWorld, Deloitte (2024) *Australian Distillers* Survey.

Australia has limited spirits exports despite having a strong national brand

Branding and cultural relevance are key factors in consumer purchasing decisions for spirits.

Eight of the world's ten largest spirits exporters have strong country brands. The UK, France and the USA top this list, exporting US$9.3b, US$6.1b and US$2.4b, respectively.

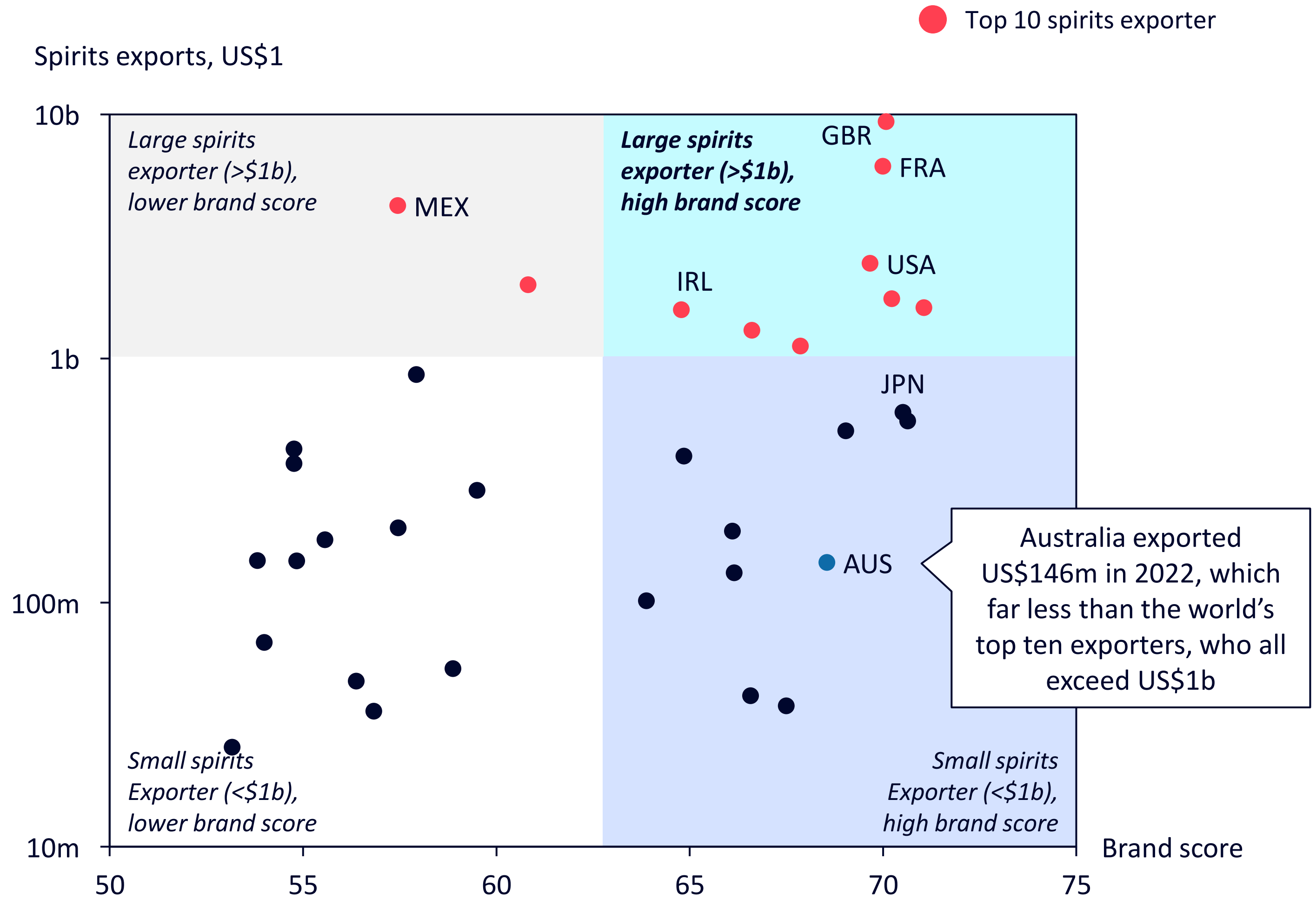
Australia has a strong national brand but is not a large spirits exporter. While Australia has the right foundations to grow its exports through its country brand, these assets are not being effectively utilised. One challenge raised by distillers looking to export was that there are significant investment and marketing costs to enter new markets. This is driven by the fact that Australia's spirits industry does not currently have a strong presence internationally. An organisation like Wine Australia for the spirits industry could help to grow an international presence for the industry.

Other countries with strong brands that are emerging spirits exporters include Japan and Canada, who have grown their exports by 37% and 9% respectively between 2018 through to 2021. Both these countries have a strong national brand scores which are underpinned by government or industry bodies to support exports from domestic spirits industries.

Nation branding is measured using IPSOS' Nation Brand Index which measures perceptions of countries around the world based on a survey of 60,000 people across twenty countries.

National brand score and value of spirits exported

X-Axis = $US value of spirits exported in 2022, Y-Axis = Brand score 1-100



Notes: (1) Only includes countries who export over $25m, Norris (2020) *Isn't it iconic? Brand iconicity and distilled spirits: An exploratory study.*
Sources: UN Comtrade (2022) *Trade Data*, uses annual exports of countries in 2022 and excludes those exporting less than $1m.

Mexico's tequila exports have grown in volume and value with branding, trade support and investment key factors

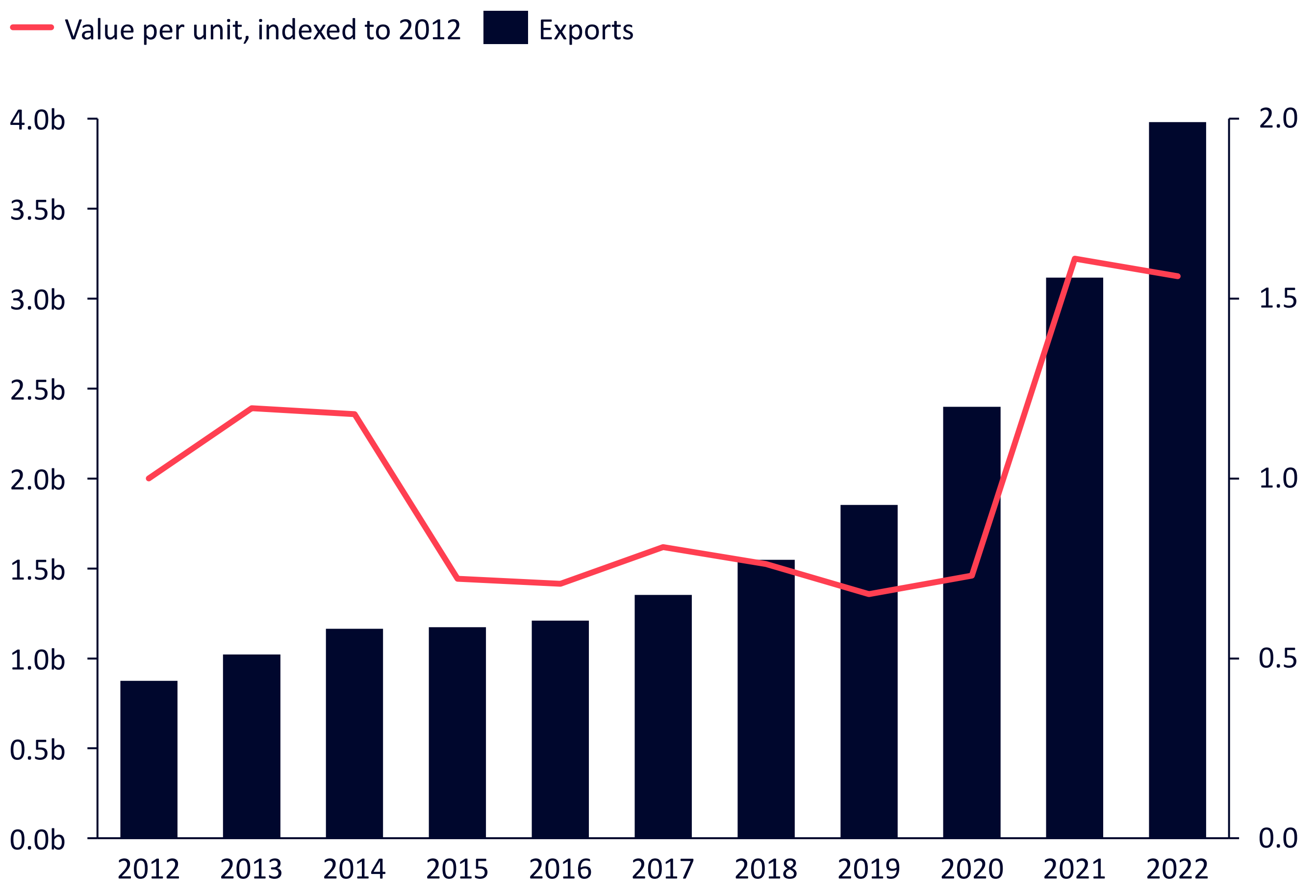
Driven by tequila, Mexico's spirits exports have quadrupled from US$875m in 2012 to almost US$4b in 2022. During this time, the value per unit also increased by 56%. This strong growth has been driven by a range of factors which include premiumisation of drink preferences and Mexico's ability to leverage its national branding and country of origin status for tequila.

Government support for Mexico's tequila industry have played an important part in growing exports. The Mexican Government has invested in intellectual property and country branding, obtaining geographical indication and country origin trademarks. This has meant Mexico is the only country able to produce and sell tequila. In addition to this there have been a range of government policies to support exporters including streamlining of export regulations, supporting FDI and negotiating trade agreements with large export markets such as the USA, Canada, Spain, France and Italy.

Mexico's strong country branding for tequila as well as strong support from government has helped in attracting investment from global companies looking to capitalise on growing demand. For example, following its acquisition of Don Julio, Diageo invested a further US$750m in the brand for process improvements and an expansion of manufacturing capacity.

Mexico tequila export volume and value per unit over the last decade

Millions of US$, Index (value per unit, base = 2012), Mexico, 2012-2022[1]



Notes: (1) Value measured by dollar per kg exported.
Sources: Desktop research, AcevesSpirits (2023) *Exploring Mexico's tequila industry and the impact on its economy,* Salary Expert by Economic Research Institute (2023) *Distillery worker,* Gaytan (2017) *Transformation of tequila, from hangover to highbrow,* Yougov (2023) *How influential are celebrities in swaying consumers alcohol purchase decisions,* Diageo (2021) *Diageo announces investment to support growth in the tequila category,* Investment Monitor (2023) *Brown-Forman announces $200m tequila expansion in Jalisco, Mexico,* UN Comtrade (2022) *Trade Data.*

Australian businesses face a more challenging operating environment for exporting relative to other countries

Our modelling shows that a key driver of strong trade performance in spirits is having a conducive regulatory environment for trading across borders. This includes minimising time and cost to export – such as through streamlined customs and export processes – and supporting trade arrangements.

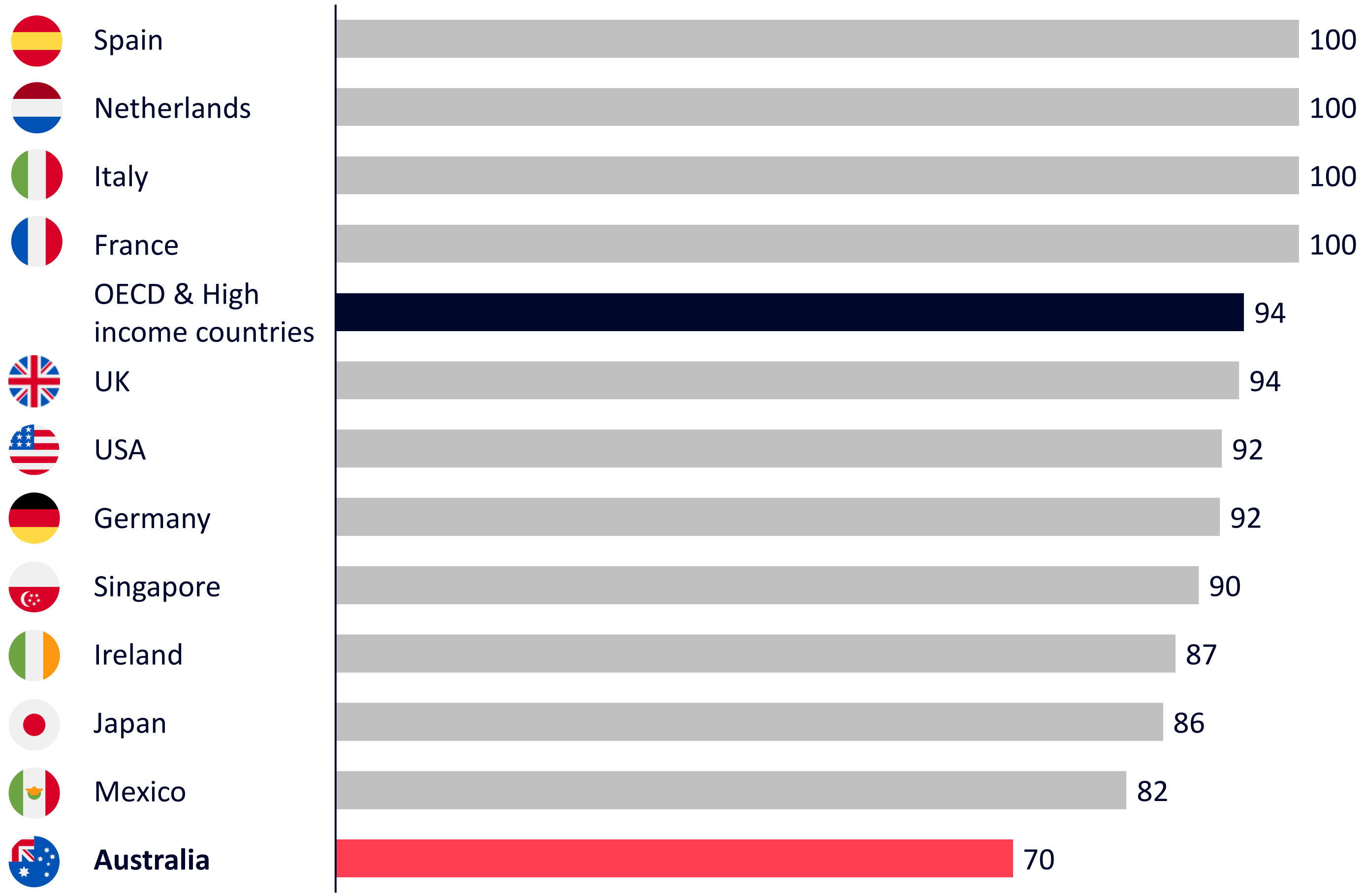
Australia is a laggard in this regard. The World Bank's 'Trading Across Borders' measure provides a composite measure to compare the conduciveness of regulations for trade as well as cost to export and import. Australia ranks far below the rest of the OECD and other top spirits exporters on this measure.

The complexity of this environment is well documented. The Australian Parliamentary Inquiry into 'Exports and attracting investment' described Australia's export process as complex, antiquated and fragmented across different regulatory agencies, with complex requirements to fulfil.

While there is some support for distillers looking to export through avenues such as AusTrade, many distillers noted that this support is often not tailored to their needs which are distinct from other industries such as wine.

Trading across border scores

Trading across border scores, top spirits exporters and OECD, 2019[1]



Notes: (1) The trading across borders score is based on a country's largest exports with its largest trading partner and accounts for the time and cost it takes to export and comply with documentary requirements. Many of these high performing countries are located in the EU, trade with nearby countries and face low costs of export compliance given their EU membership.
Sources: Parliament of Australia (2020) *Opportunities and challenges for Australia's exports,* World Bank (2019) *Trading across Borders.*

Australia has a supportive environment when it comes to the ease of doing business, but it still has room to improve

The World Bank's Ease of doing business index measures regulatory supportiveness to do business in a country. This index includes several dimensions, such as starting a business, enforcing contracts, getting credit and paying taxes.

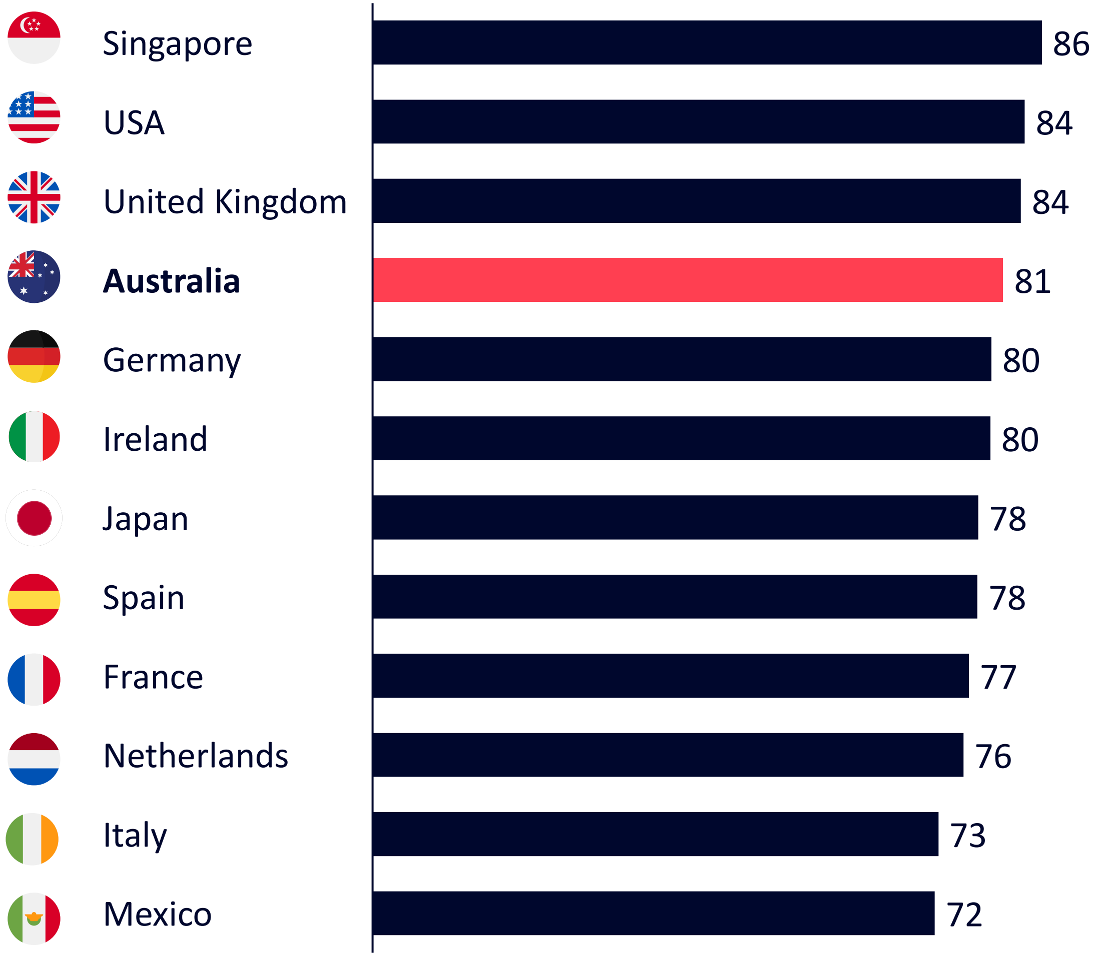
By this measure, Australia ranks well, placing fourth compared to other top spirits exporters. Australia scores particularly well in getting credit, enforcing contracts and resolving insolvency.

Nevertheless, Australia still has room to improve. Industry consultations identified several areas for improvement, including:

- Complex and lengthy compliance processes, especially in relation to building and zoning, work health and safety;
- Limited support for business skills development, such as pitching to investors to seek investment or networking to expand businesses, especially overseas; and
- Limited competition in the upstream business ecosystem of distributors and retailers which creates challenges producers to expand their business.

Ease of doing business scores by country

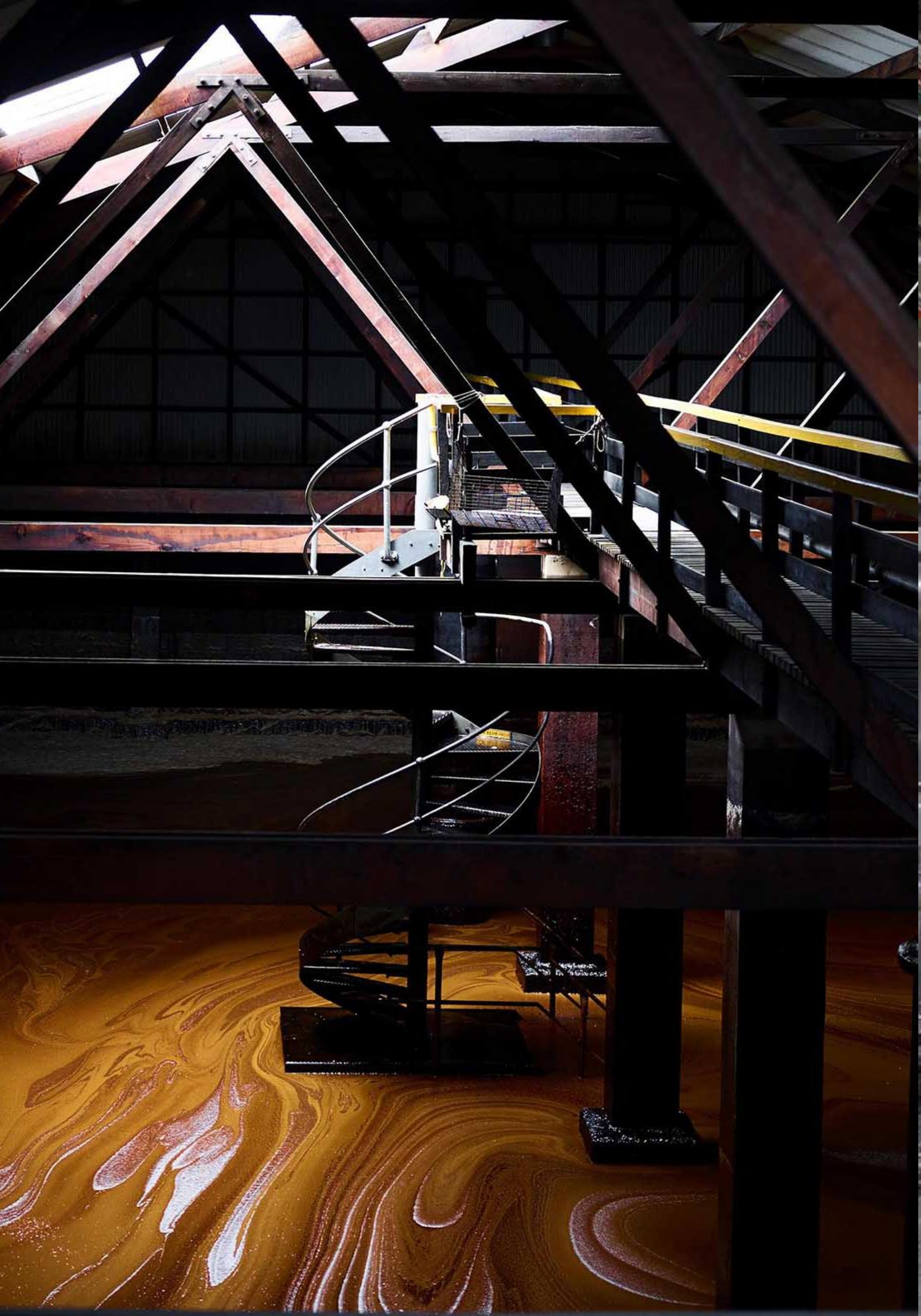
Ease of doing business scores, top spirits exporters, 2019



Despite not being a large producer, Singapore is a key exporter due to its status as a transport, business and financial hub.

Singapore is known for its highly favourable policies for foreign investment and trade and technological readiness.

Sources: World Bank (2019) *Ease of Doing Business Scores.*




SECTION 4

The Government can help unlock the potential of the spirits industry to capture this $1 billion export opportunity

1 Australia’s emerging spirits industry supports exports, tourism, regional communities and jobs

2 The Australian spirits industry has the potential to be a $1 billion export industry by 2035

3 Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its $1 billion potential

5 Appendix

The government can help the Australian industry achieve its export potential through a Spirits Industry Global Growth Strategy

To be delivered through 'Spirits Australia'

Australia's spirits industry can grow…	But needs support to…	Which can be achieved through…	Which will deliver…
$210m **export industry** in 2022	1 **Attract investment**	Excise tax freeze and broader reform	Manufacturing jobs growth
		Business and FDI incentives	Development of regional Australia
↓	2 **Build industry capability**	Employment and skills	Small business development
		Business support and knowledge sharing	Tourism growth
		Industry safety and quality standards	Cost of living relief
$1 billion **export industry** by 2035	3 **Streamline regulation**	Consistent regulation	Export growth and soft diplomacy
		Removal of red tape	Foreign direct investment
	4 **Access markets**	Trade agreements and conditions	Supply chain resilience and development
		International branding and recognition	Employment for diverse and young people
		Trade networks	

Supportive taxation and a proactive industry body has nurtured strong growth in Australian wine exports

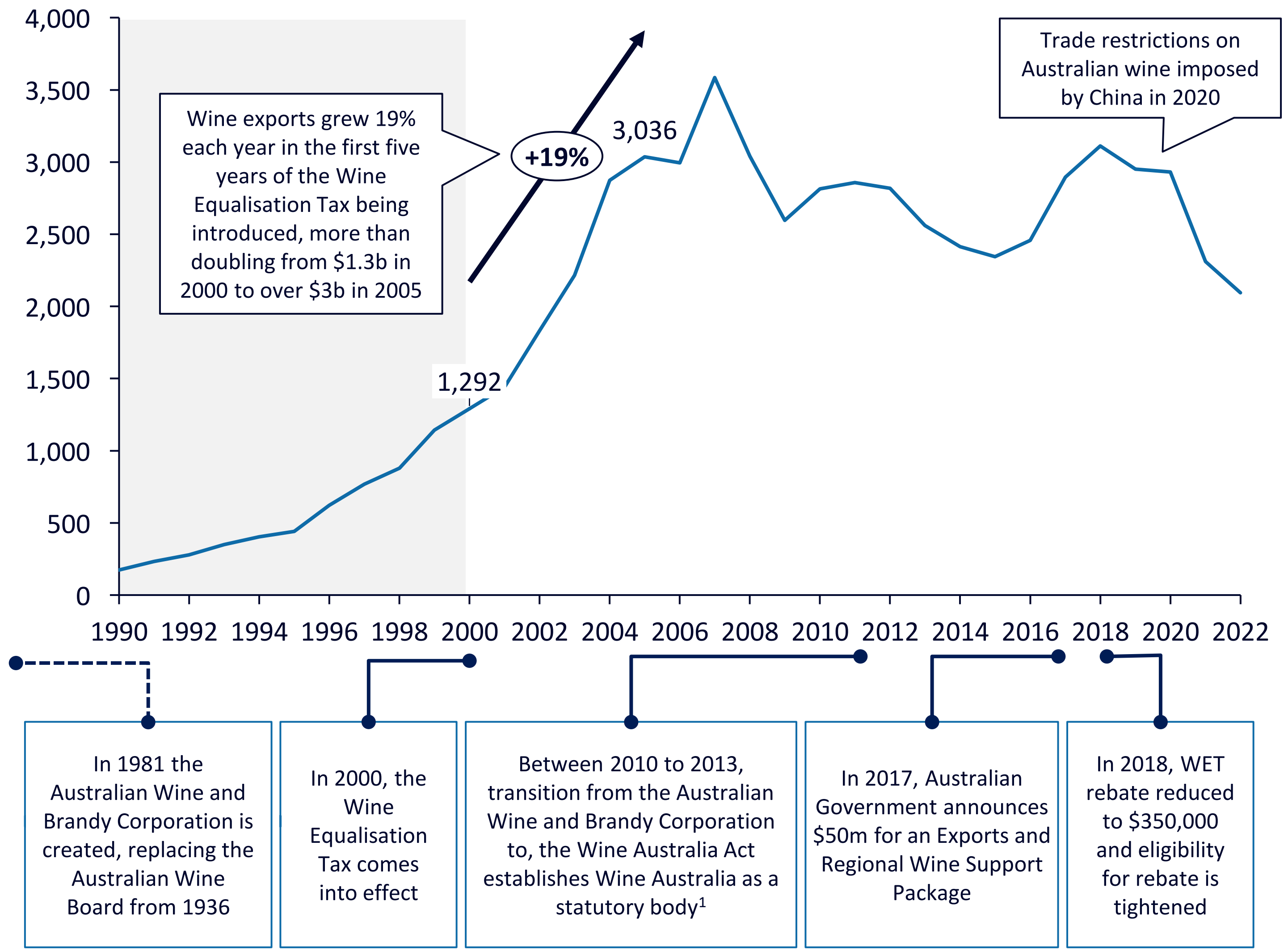
Australian wine exports have grown dramatically since the 1990s, bolstered by favourable policy supports. This includes:

- Favourable tax conditions through the Wine Equalisation Tax (WET) which involves a 29% on the wholesale value of wine. Introduced in July 2000, this tax treatment results in less tax paid for wine compared to other alcoholic beverages in Australia which are taxed on their alcohol content (i.e. a volumetric tax). Additionally, the Federal Government provides rebates to wine producers selling both domestically and internationally of up to $350,000 annually.
- The development of Wine Australia which is a statutory corporation and is co-funded by industry and Federal Government.[1] The corporation allows for alignment between government and industry and has acted as a backbone for the wine industry's growth domestically and internationally. Wine Australia's objectives include supporting growth in:
  - the wine industry;
  - international wine tourism;
  - exporting of grape products; and
  - promoting the consumption and sale of grape products domestically and internationally.

These supportive industry policies has helped to grow wine exports. Similar initiatives for the spirits industry could help set the industry on a similar path.

Australian wine exports over time

Trade value, millions of A$, 1990-2022



Notes: (1) This statutory body replaced prior similar bodies such as the Australian Wine Board (1980) and the Australian Wine and Brandy Corporation (1981).
Sources: Average from 1 January 2021 to 1 January 2024, from Grant connect (2024) *Grant award published* records from.

An excise tax freeze and the creation of a 'Spirits Australia' would unlock immediate value for the spirits industry, as has been the case in the wine industry

Priority

Support needed	Actions
1 Attract investment	**Excise tax freeze and broader reform** (Priority)
	Business and FDI incentives
2 Build industry capability	Employment and skills
	Business support and knowledge sharing (Priority)
	Industry safety and quality standards (Priority)
3 Streamline regulation	Consistent regulation
	Removal of red tape
4 Access markets	Trade agreements and conditions
	International branding and recognition (Priority)
	Trade networks (Priority)

Excise tax freeze and broader reform

A

- An excise tax freeze would create a more sustainable and predictable environment for the spirits industry to operate in.
- It would mean distillers are more able to reinvest revenue back in their businesses and would create a more favourable investment environment for outside investment.
- Broader excise reform should also be considered.

Establish 'Spirits Australia'

B

- The development of 'Spirits Australia' would support industry growth through coordinated efforts to elevate Australia's spirits overseas and domestically.
- It would also be able to provide tailored business advice for growth and exports and ensure quality and safety standards for the industry are adhered to.

The UK is the world's top spirit exporter by volume and has kept spirits excise flat for most of the last decade

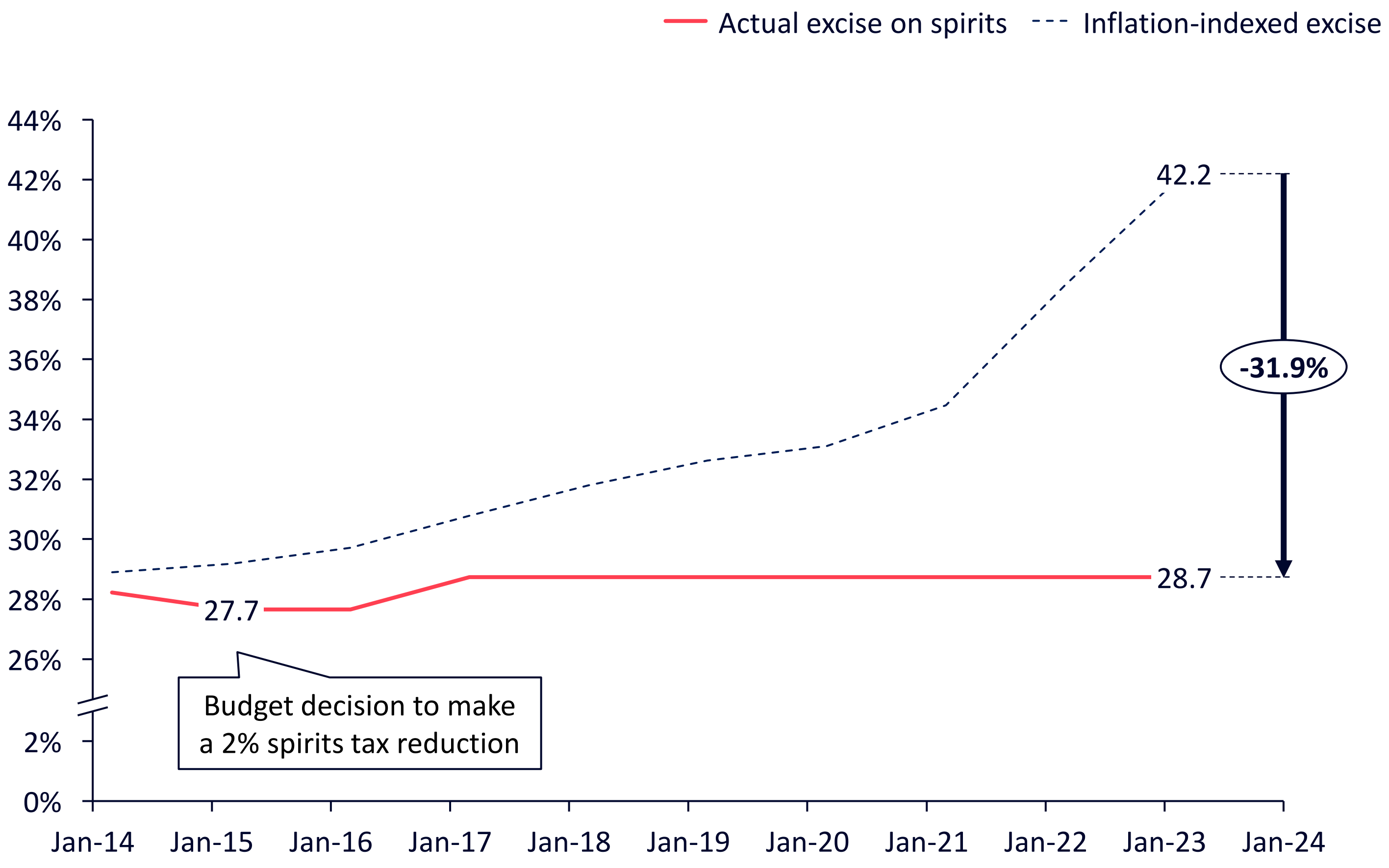
The UK's spirits excise tax has stayed relatively flat over the last decade at £28.70 – much lower than what it would have been if it had followed legislated annual increases to the excise indexed to inflation.

Like Australia, the UK's excise on spirits is indexed to inflation.[1] However, the UK government has put a freeze on scheduled increases between 2014 and 2023 – with an exception for 2015, where the duty was cut by 2%.[2] Importantly, these freezes had marginal impacts on tax revenue. Actual tax revenue between FY19 and FY23 was, on average, 10% higher than forecasted revenue. Additionally, the UK was consistently the world's biggest spirits exporter by trade value during this time.

A review into the alcohol tax system was pledged in 2019 and 2020 ahead of the UK's general election. This review has subsequently led to a change in the alcohol tax system, which now taxes all alcohol based on their alcohol strength. These changes recently came into force in August 2023, with the impact on the overall market yet to be seen.[3]

Rate of spirits excise tax in the UK

Excise rate on spirits, %, 2014-24



Notes: (1) Uses Retail Prices Index from the Office of National Statistics (2023) *RPI All Items: Percentage change over 12 months: Jan 1987 = 100.* Spirits are taxed on an ABV basis, for all spirits with an ABV of more than 1.3% the duty is £28.70 per litre of pure alcohol. (2) Spirits and Cocktails Australia (2020) *Pre-budget submission.* (3) House of Commons Library (2023) *The new alcohol duty system.*

Sources: BBC News (2023) *Alcohol duty frozen until next August,* HM Treasury (2021) *The new alcohol duty system: Consultation,* The Spirits Business (2022) *Double-digit duty rise could 'decimate' on-trade, Wine and Spirit Trade Association (2020) Budget submission,* UN Comtrade (2022) *Trade Data.*

A freeze on excise tax could follow a similar model to the UK where the industry grew, and tax revenue consistently exceeded forecasts

1 Overview of excise tax freeze and broader reform

An excise tax freeze would involve an immediate pause on further indexations of the rate for a disclosed period of time.

A continuation of indexation could be assessed at the end of index pause to assess whether increases should continue or not.

Australia could take a similar approach to the UK's excise tax freeze on spirits. Similar instances where the Federal Government followed in the UK's footsteps include changes to fuel excise taxes to help address cost-of-living pressures.

Spirits currently contribute the lion's share of alcohol excise tax receipts (58%). The Federal Government's latest budget estimates a $5.6b receipt from spirits,[1] more than beer ($2.8b) and wine ($1.1b) combined.

A review of the alcohol tax system in the UK has led to recent changes in how tax is paid across alcoholic beverages and could be an example for Australia to follow.

2 Implications

Government taxation

Evidence from the UK shows that there may in fact be positive tax implications from an excise tax freeze. Actual tax revenue over the last five years was, on average, 10% higher than forecasted revenue.[2]

Implications for businesses

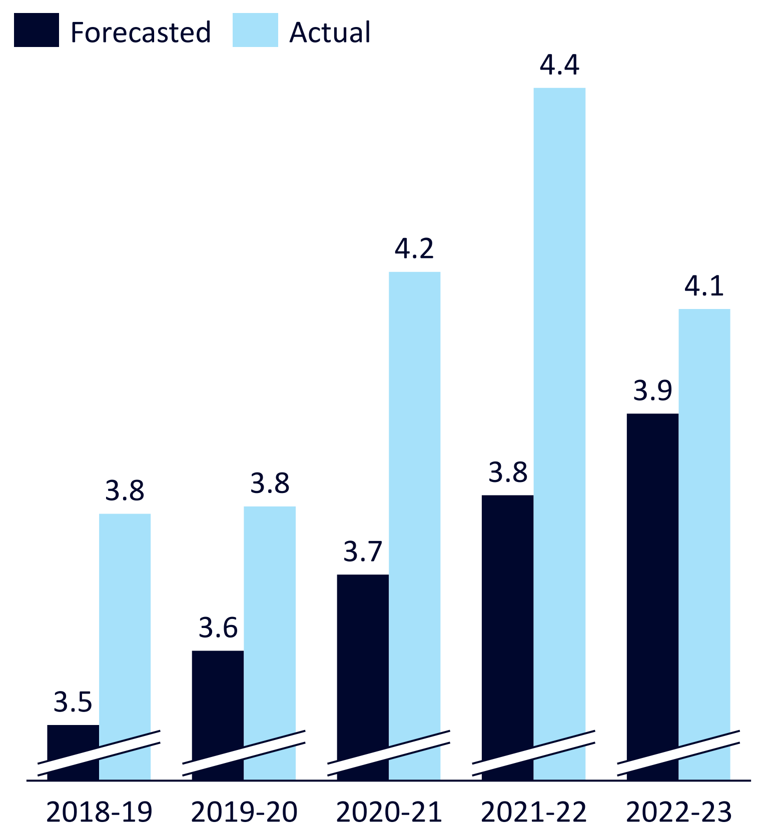
A freeze in the excise tax would allow businesses to reinvest and grow their business as well as help to attract outside investment into the sector.

If there was to be a pause in excise tax indexation, 51% of businesses said they would hire more staff, 44% would increase marketing, 40% would invest in machinery or facilities to scale production and 28% said they would purchase more inputs to scale production.

A freeze on excise tax would also provide more predictable policy environment and may encourage more outside investment, including FDI. Currently only 3% of distillers receive FDI.

Excise tax freeze budget impacts in the UK

£ billion, actual vs. forecasted



Notes: (1) Inclusive of non-glass spirits or RTDs. (2) Compared against the UK's November 2017 forecast which provided a forecast for 2016-17 to 2022-23.
Sources: Deloitte industry survey, Parliamentary Budget Office (2022) *Fuel taxation in Australia,* House of Commons Library (2023) *The new alcohol duty system,* Office for Budget Responsibility (2024) *Historical official forecast database,* Australian Government (2023) *Mid-Year Economic and Fiscal Outlook 2023-24.*

Ⓐ **Excise tax freeze and broader reform**

The world's most exported spirit, Scotch whisky, has benefitted from considerable foreign investment

Scotch whisky is the world's most exported spirit and fastest-growing luxury investment. Its exports have grown 31% each year from 2018 to 2022. Almost 90% of all Scotch Whisky produced is exported, and it represents 2% of all of the UK's goods exports.[1]

Over the last decade, Scotch whisky distilleries are increasingly foreign-owned. In 2009, only half of these distilleries were foreign owned. However, this has grown to two-thirds by 2021.[2] This follows a longstanding trend of increased foreign ownership in Scottish whisky distilleries since the 1900s.[3]

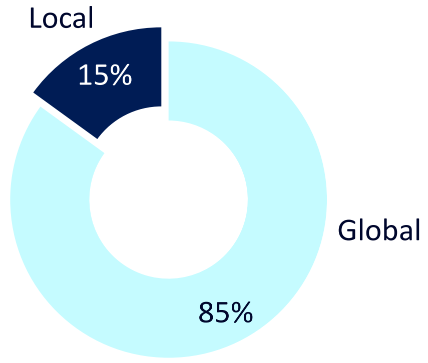
The spirits industry in Scotland is one example of an industry which has captured foreign direct investment from global companies. Foreign direct investment has had outsized effects in Scotland's economy. In manufacturing, for example, foreign owned businesses outside of Scotland and the UK paid their employees 62% more on average.[4]

While non-Scottish businesses only account for 3% of businesses in Scotland they account for:

- 77% of Scottish exports with 86% of Scotland's top 100 exporters being foreign or UK-owned
- 34% of employment; and
- 64% of business R&D spending.

Foreign and local ownership of Scottish distilleries

% of total, 2023[5]



Foreign investment in Scottish distilleries has enabled expansion of…

Production facilities

Since being acquired by the global luxury brand LVMH, Ardberg Distillery has doubled its production capacity

Distribution to global markets

Bladnoch Distillery's purchase by an Australian investor has revived it from bankruptcy to expand distribution to 60 global markets

Hospitality and tourism facilities

Diageo's £185m investment into Johnnie Walker included building a tourism centre that welcomes 350,000 people annually

Notes: (1) Scotch Whisky Association (2020) *Written evidence by the Scotch Whisky Association,* (2)) The Herald (2021) *Who owns Scotland's whisky revealed as nearly 70% owned by non-Scots firms;* (3) McKendrick and Hannan (2014) *Oppositional Identities and Resource Partitioning: Distillery ownership in Scotch Whisky, 1826-2009,* Scottish Government (2022) *Shaping Scotland's economy: inward investment plan.* (5) Excludes distilleries under construction and those under unknown ownership.
Sources: Scotch Whisky Association (2024) *Scotch Whisky's Economic Impact 2022,* Desktop research, Mandala analysis.

The development of ‘Spirits Australia’, similar to Wine Australia, would offer an important backbone for the industry to grow domestically and internationally

OVERVIEW OF SPIRITS AUSTRALIA

Wine Australia has played an important role in growing the Australian wine industry into what it is today. It has fostered a strong partnership between industry and government to meet common objectives. Establishing a similar body for the spirits industry would allow government and industry to work hand in hand in growing the spirits industry while meeting government objectives. Similar models can also be seen in Japan where the Japan External Trade Organisation has helped spirits grow more than sixfold between 2013 and 2023.

Spirits Australia could be set up as a standalone statutory body and would be dedicated to promoting Australian spirits. Responsibilities for Spirits Australia could include, but are not limited to:

- fostering and supporting the growth of profitable, resilient and sustainable Australian distillers;
- encouraging research and innovation within the sector;
- building markets, disseminating market information and knowledge;
- growing industry networks domestically and internationally; and
- encouraging adoption and ensuring compliance of quality and safety standards within the industry.

These responsibilities would build upon Wine Australia’s current model. However, this model should be refined through close consultation with industry and government.

Consultation with industry identified a strong appetite for Spirits Australia, which can provide tailored advice for exporting and promotion of spirits for the industry as a whole, both domestically and internationally.

Reinvesting in the spirits industry through Spirits Australia would generate significant value for both the industry and government and help set up a similar growth story to the Australian wine industry. As an example, less than 86 cents from every $100 of spirits excise tax would be equivalent to Wine Australia’s annual revenue in FY23.

Notes: (1) Inclusive of non-glass spirits or RTDs.
Sources: Wine Australia Annual Report 2022-23, Office for Budget Responsibility (2024) *Historical official forecast database,* Australian Government Budget Outcome 2022-23, Industry consultation, Mandala analysis.

B Establish ‘Spirits Australia’

Japan’s resolution to promote spirits exports has been matched by a 24% increase each year in the last decade

In 2013, Japan exported US$88.3m of spirits. Over the last decade, this has grown more than sixfold to US$602.1m in 2023, representing an annual growth rate of 24%.

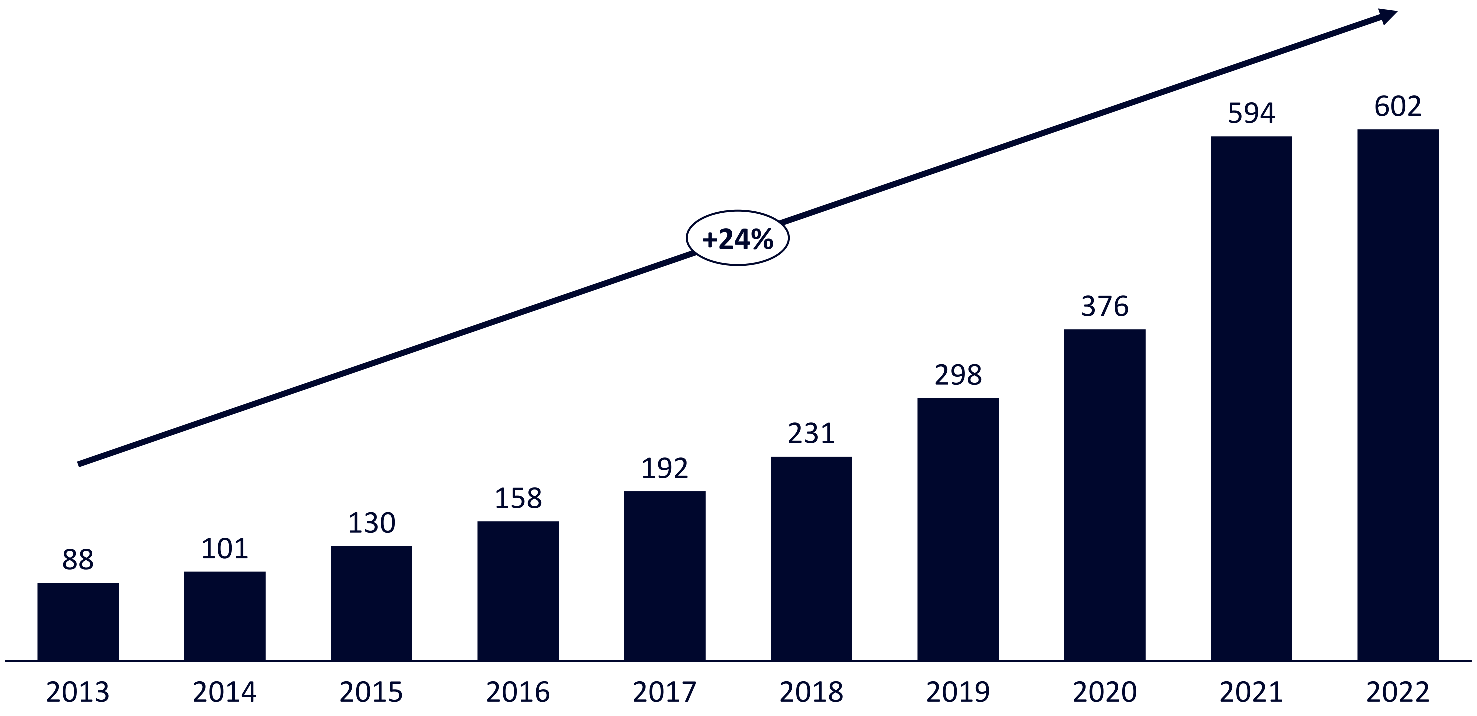
One of the key proponents which helped spur this growth was the Japanese Government’s export body, the Japan External Trade Organisation. Founded in 1958 to promote Japanese exports abroad, the organisation’s focus on spirits was strengthened by the Japanese Cabinet’s 2013 resolution to develop a strong export environment for Japanese spirits.

Since then, government policies to support Japanese spirits exports include:

- designating certain spirits as an export priority, setting clear targets for countries and export volumes,
- supporting cultivation of sales channels, such as exhibiting Japan-produced spirits at large-scale overseas trade exhibitions, subsidising distillers’ efforts in developing new markets, and providing market information for distilleries interested in exporting,
- expanding the use of geographical indicators, and supporting the abolition of tariffs and import restrictions on Japanese exports; and,
- supporting education and technological changes to improve safety, quality and innovation in the industry.

Japan spirit exports of last decade

Trade value, US$, millions



In 2013, the Japanese Cabinet met and resolved to develop a strong export environment for Japanese spirits

The Japan-European Union Economic Partnership Agreement (EPA) is finalised in 2017, with key commitments to protect geographical indication of Japanese shochu and relaxing quantity restrictions

In 2020, the Japanese Government designated three spirits as priority exports; sake, whisky and shochu/awamori. Under this designation, the Japanese Government set out a target number of exports and targets for specific countries for their exports. The government funds activities such as market research to support this

Sources: Cabinet Office (Japan) (2013) *The “Liaison Conference for the Promotion of Exports of Alcoholic Beverages Produced in Japan”*, UN Comtrade (2023) *Trade data*, Japanese National Tax Agency (2023) *National Agency Report 2023: Liquor Administration*, Government of Japan (2018) *The EPA Brings Shochu into the EU*.

By implementing these reforms, the Australian spirits industry has the chance to capture emerging market opportunities while supporting the government's priorities

Emerging Opportunities

- Growing markets and demand in regions close to Australia
- Changing drink preferences for premium spirits
- A burgeoning industry, with strong foundations and a network of local distillers

Australian Spirits Industry

Government Priorities

- Manufacturing jobs
- Small business
- Regional communities
- Export opportunities
- Tourism
- Supporting diversity and young people

Sources: Industry consultation, desktop research, Mandala analysis.

SECTION 5

Appendix

1. Australia’s emerging spirits industry supports exports, tourism, regional communities and jobs
2. The Australian spirits industry has the potential to be a $1 billion export industry by 2035
3. Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its $1 billion potential
4. The Government can help unlock the potential of the spirits industry to capture this $1 billion export opportunity

Key takeaways from industry consultation

INDUSTRY CONSULTATION

FOUR PILLARS · STARWARD · MANLY SPIRITS CO · PATIENT WOLF DISTILLING CO. · NEVER NEVER DISTILLING CO. · CAPE BYRON DISTILLERY · GRANDDAD JACK'S CRAFT DISTILLERY · SUNSHINE & SONS

Enablers

- **Growing local interest in spirits**, particularly for gin, spirits with Australian ingredients and Australian lifestyle brand, made locally and sustainably
- **Investment and mentorship from personal, private and public sources**, whether from family and friends, commercial investors in Australia or internationally, or government support through grants and marketing
- **Transferable knowledge and skills** from wine, F&B, distribution, PR backgrounds – having the right people to grow the business

Barriers

- **Continued increases to excise tax regime** creates rising costs that create challenges for local distillers to grow their business
- **Inconsistent tax across types of alcohol** mean that increases in taxation for spirits will make it less competitive relative to other alcohol types such as wine and beer
- **Lack of recognition for Australian spirits both from local and international customers** mean distillers require large upfront costs on marketing and outreach to educate consumers
- **Lack of investment both from local and international sources** due to the tax and regulatory environment
- **Developing knowledge and experience** of the industry including in distilling best practices and marketing and branding

Change needed

- **Changes to the excise tax** such as a freeze or reduction, that will enable the industry to remain cost competitive
- **Spirits Australia with a brand and export focus**, like Wine Australia, that can help build a category, educate new customers especially internationally
- **Other government support** such as mentorship to upskill distillers and staff including leadership and business acumen, assisting with building networks overseas such as supporting marketing events like bar takeovers
- **Role of global spirits companies** in investing in local distillers and providing knowledge and experience to grow

Sources: Stakeholder consultation.

Spirits included in this study

IN SCOPE	OUT OF SCOPE

PRODUCT CODE	DESCRIPTION
220810	Alcoholic preparations: compound, of a kind used for the manufacture of beverages
220820	Spirits obtained by distilling grape wine or grape marc
220830	Whiskies
220840	Rum and tafia
220850	Gin and geneva
220890	Spirits, liqueurs and other spirituous beverages: n.e.s. in heading no. 2208
220900	Vinegar and substitutes for vinegar: obtained from acetic acid
220430	Grape must: n.e.s. in heading no. 2009, n.e.s. in item no. 2204.
220510	Vermouth and other wine of fresh grapes, flavoured with plants or aromatic substances, in containers holding 2 litres or less
220590	Vermouth and other wine of fresh grapes, flavoured with plants or aromatic substances, in containers holding more than 2 litres
220600	Beverages, fermented: (eg cider, perry, mead)
220710	Undenatured ethyl alcohol: of an alcoholic strength by volume of 80% vol. or higher
220720	Ethyl alcohol and other spirits: denatured, of any strength

Sources: UN Comtrade

This report estimates Australia's export potential using a stochastic frontier gravity model

Modelling in this report uses a stochastic frontier gravity model of trade, which enables the estimation of a country's optimal level of trade and measures its deviation from the optimal state. This furthermore enables benchmarking between countries; in our case between Australia and top spirits exporters.

The stochastic frontier gravity model has the following equation:

$$\ln X_{ij} = \beta_0 + \beta_1 \ln GDP_i + \beta_2 \ln GDP_j + \beta_3 \ln rDist_{ij} + \beta_4 Border_{ij} + v_{ij} - u_{ij}$$

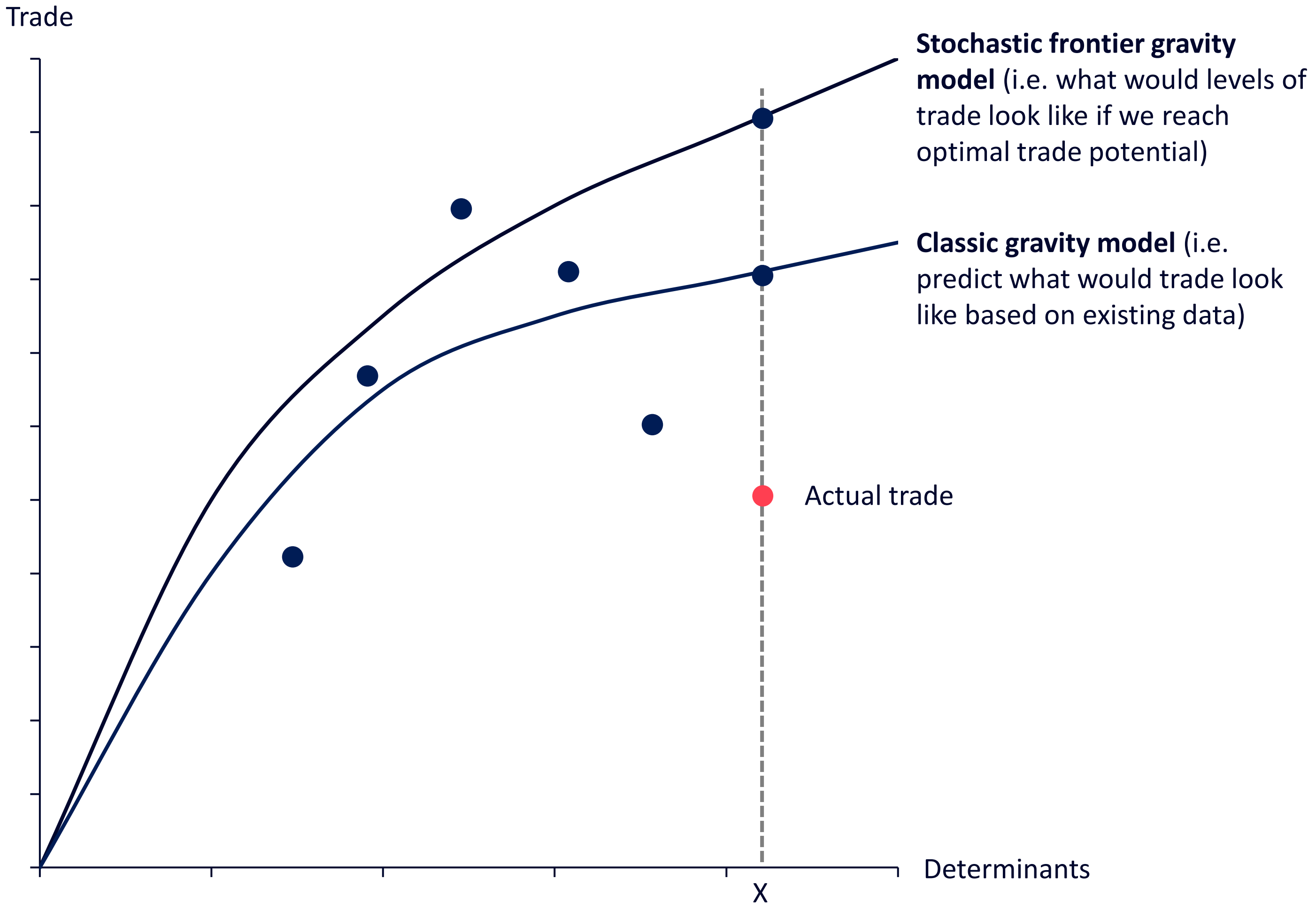
Key terms in the model include:

- Dependent variable – export value for spirits between country pairs;
- Independent variables – GDP of countries in country pairs, relative distance, levels of alcohol consumption, social connectedness, common language, shared colonial background; and,
- Inefficiency variable – key to this model is its ability to isolate an inefficiency term, which directly measures deviation from a country's optimal trade performance.

Several models were run using a range of variables and tests were conducted to ensure results were robust and suitable. The variables that were chosen were informed by theory and the model specifications tested for best fit.

Modelling potential spirits exports

Example stochastic frontier gravity model of trade



Sources: Mandala analysis.

The status quo rate used to measure 2035 exports takes a middle-of-the path option

To estimate the growth of exports to 2035, we have used the compound annual growth rate of the last five years of Australian spirits exports by trade value as the status-quo rate.

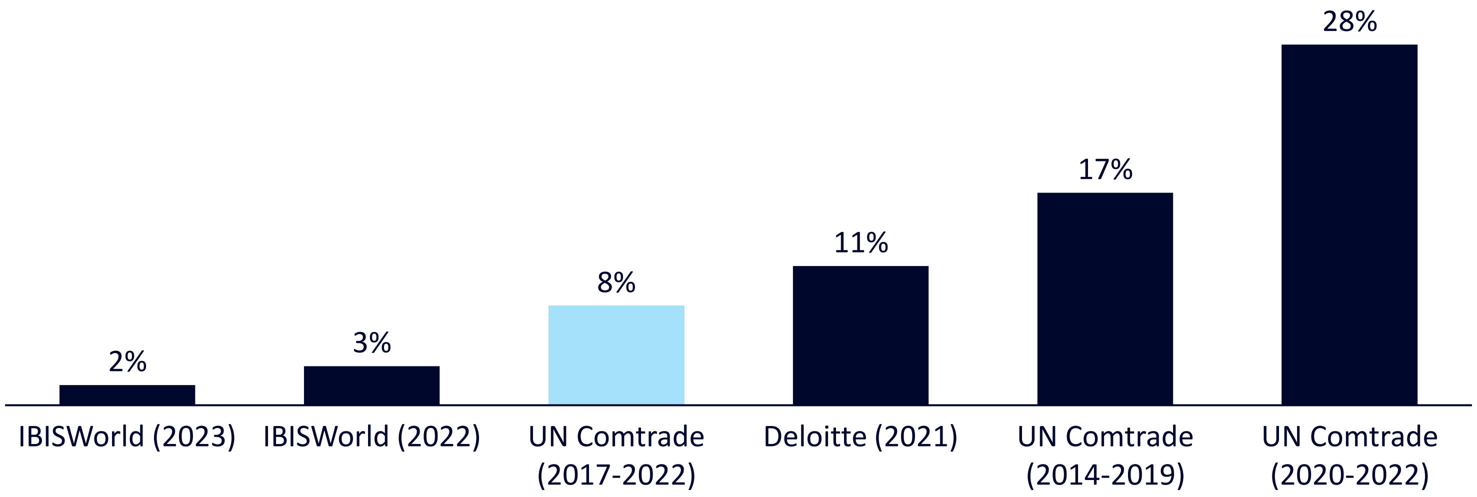
This estimate is conservative when compared to growth rates in the five years preceding the COVID-19 pandemic (2014-2019) at 17%, and the years following the COVID-19 pandemic (2020-22) at 28% annual growth.

Other sources projected growth rates for Australian spirits exports include IBISWorld, which projects a 2% growth rate for 2024 to 2029 and 3% from 2021-22 to 2026-27. Deloitte also provides a 11% growth rate which is based on historical growth rates between 2007-8 to 2017-18.

Changes in market, macroeconomic and geopolitical factors may affect these estimates.

Existing and potential export uplift using growth assumptions from historical UN Comtrade data, IBISWorld and Deloitte projections

% CAGR



Projected growth rates from 2024 to 2029	Projected growth rates from 2021-22 to 2026-27	Drawn from historical export growth rates from 2017 to 2022	Projected growth rates from 2022-23 to 2030-31 if Australian exports continue its growth from 2007-8 to 2017-18	Drawn from historical export growth rates from 2014 to 2019, which were five years preceding the COVID-19 pandemic	Drawn from historical export growth rates from 2020 to 2022, which were the three years of recovery from the COVID-19 pandemic

Sources: UN Comtrade, IBISWorld, Deloitte, Mandala analysis.

We used a three-step approach to estimate the direct economic contribution and jobs of achieving our export potential by 2035

ECONOMIC CONTRIBUTION OF OPTIMISING SPIRITS EXPORTS BY 2035

Attributing GVA and jobs to domestic consumption and exports

- Split out revenue from domestic consumption of domestically manufactured spirits, exports from domestically manufactured spirits and re-exports.
- Apply GVA to revenue ratios utilising estimates for the industry from Deloitte for manufacturing and wholesale. Domestically manufactured spirits that are exported would contribute to GVA in manufacturing and wholesale, while re-exports would only contribute to GVA in wholesale.
- A similar approach is used to calculate jobs supported by domestically manufactured spirits for exports and re-exports using a jobs to GVA ratio.

Adjusting for time periods to 2035

- Quantify estimated uplift under status-quo and uplift scenario between 2022 and 2035.
- Apply relevant GVA to revenue ratios for domestically manufactured spirits for exports and re-exports.
- A similar approach is used to calculate jobs supported by domestically manufactured spirits for exports and re-exports using a jobs to GVA ratio.

Data:

- **Comtrade** – Export levels, growth in export levels
- **Deloitte** – 2024 Report on contribution of spirits to Australia's economy
- **IBISWorld** – Spirit manufacturing in Australia

Assumptions:

- Modelling assumes that growth rates will remain consistent to historical 5-year growth rates in exports as well as consistent split of domestically produced spirits for export and re-exports
- Modelling also assumes consistent ratios in economic contributions and jobs between manufacturing, wholesale from the Deloitte report.

Sources: Mandala analysis, Comtrade, IBISWorld, Deloitte.

This report estimates which factors are key to achieving Australia's spirits export potential

To understand the policy barriers that would be influential in improving Australia's spirits exports, we use an Ordinary Least Squared regression model. This modelling shows the impact of each barrier, through the coefficients of the independent variables considered.

This regression has the following equation:

$$U_{ij} = \beta_0 + \beta_1 \text{ Cost of alcohol} + \beta_2 \text{ Branding} + . + \beta_3 \text{ Ease of doing business} + \beta_{ij} + \varepsilon$$

Key terms in this model include:

- Dependent variable – the efficiency variable between two country pairs (taken from the gravity model outputs in the first phase of modelling); and
- Independent variables – cost of alcohol (including excise tax), branding, trade support such as FTAs signed and efficient trade systems, and ease of doing business scores as examples of the independent variables used.

Several models were run using a range of variables and tests were conducted to ensure results were robust and suitable.

Modelling potential spirits exports through the gravity model of trade

Equation and diagram of stochastic frontier gravity model of trade

Independent variable	Description	Source
Relative cost of alcohol	▪ The relative cost of alcohol per country compared to world average – matched to the exporting and importing country in a country pair.	Quartz, from World Bank
Brand	▪ A score measure for branding, from IPSOS' Nation Brand Index. This provides a score based on perceptions of countries around the world based on a survey of 60,000 people.	IPSOS
Free trade agreement	▪ Measure for whether the country pair is currently engaged in a regional trade agreement.	CEPII, from WTO
Ease of doing business	▪ A composite measure by country to compare the supportiveness of regulatory environment to doing business. Key components from this include enforcement of contracts, ease of obtaining credit, and paying taxes.	World Bank
Trading across borders	▪ A composite measure by country to compare the conduciveness of regulations for trade, cost to export and import.	World Bank
Starting a business	▪ A composite measure by country to compare the ease of starting a business, which includes measures such as time taken, and the number of procedures required to start a company.	World Bank
EU membership	▪ A measure for whether the exporting or importing country is a member of the EU	CEPII, from WTO
WTO membership	▪ A measure for whether the exporting or importing country is a member of the EU	CEPII, from WTO

Sources: Mandala analysis.

MANDALA