



Submission

2 August 2024

Commonwealth Parliament

Joint Standing Committee on Trade and Investment Growth: on the understanding and utilisation of benefits available to Australian industry and communities under Free Trade Agreements.

ABOUT SPIRITS & COCKTAILS AUSTRALIA

Spirits & Cocktails Australia 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.

Spirits & Cocktails Australia 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.

Spirits & Cocktails Australia 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.

Spirits & Cocktails Australia jointly funds the Alcohol Beverages Advertising Code (ABAC) Scheme, together with Australian Grape & Wine and the Brewers Association of Australia, along with direct company/member 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
ESTD RUM 1888

 BROWN-FORMAN

DIAGEO


LARK
MADE OF TASMANIA

Moët Hennessy
AUSTRALIA


Pernod Ricard Australia


SPIRITS
PLATFORM

TOP SHELF
INTERNATIONAL


WILLIAM GRANT & SONS

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 international manufacturers and importers and 700 domestic distillers and manufacturers, located in every State and Territory, with 50% of domestic 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. Spirits & Cocktails Australia members include global and Australian distillers who represent over 90% of Australian spirit sales and exports.

Australia has the capacity to attain a larger share of global spirits exports, increasing the value of spirits to the Australian economy.

According to independent research conducted by Mandala Consultancy for the Australian Distillers Association and Diageo Australia, the Australian spirits industry has the potential to be at least a \$1 billion export industry by 2035.

However, spirits manufacturers face an uphill battle growing their exports in the absence of any significant government policy interventions and programs.

Free trade agreements, as part of a coordinated industry framework, can provide the Australian spirits industry with a two-way trade benefit of improved market access and guidance for entry, as well as improved standards and compliance that ensures compliance with international obligations.

INTRODUCTION

Spirits & Cocktails Australia welcomes the opportunity to make a submission to the Joint Standing Committee on Trade and Investment Growth: *on the understanding and utilisation of benefits available to Australian industry and communities under Free Trade Agreements.*

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 are needed to scale-up Australian distilleries to meet the demand of global export markets.

For Australian exports and in particular the tourism industry, distillery door is an important distribution channel especially for smaller craft distillers in regional areas.

Distillery door is 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.

Tourism exports are the value of spending on Australian goods and services by international visitors and the value of tourism exports was \$26.1 billion in 2022-23.

There is also significant opportunity for Australian distillers to meet the growing international demand for uniquely Australian spirits.

TRADE GROWTH

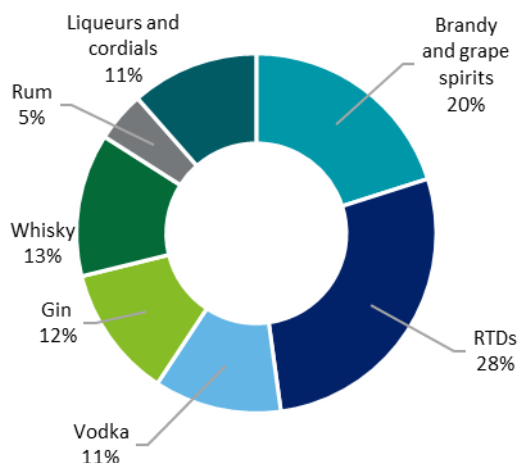
A vibrant and productive spirits industry can help showcase Australia to the world, promoting growth in domestic manufacturing while increasing trade and employment, supporting innovation and technology, and helping the growth of regional industry.

There are a number of factors that could enable this target to be achieved, including increased demand of premium Australian spirits in key Asia Pacific export markets, further changes to policy and taxation treatment of spirit excise to free up cash flow and investment in export capabilities by Australian businesses coming online.

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 UK, US & Japan have been the recipient of significant investment capital as well as premium and super-premium tequila brands from Mexico.

Here 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.

Export value by type of spirit, FY23



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 if 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 alcoholic beverages.

First Nations Communities & Native Foods

Spirits manufacturers will need 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.

Changing consumer preferences are driving demand for new products that need to appeal to knowledgeable consumers who are looking for "experiences", as well as to newer users, who are led by brand names (and not necessarily established one) and flavour descriptors rather than traditional liquids.

The growing demand for new and emerging products such as premiumisation, provides opportunity for uniquely Australian flavours, and in particular for native and indigenous ingredients in Australian spirits.

Also, there is significant evidence that consumers are shifting their spending toward products that demonstrate genuine ESG-related benefits.

The Australian native bushfood and botanicals industry is a significant and growing sector. In 2019-20, sales proceeds for this industry were estimated at \$152.5 million, and they are projected to grow to \$300 million by 2025.

Research by the University of Sydney has found that growing native bush foods could reverse [environmental degradation](#) and offer Australia better [food security](#), according to new research, but concerns remain around commercial production.

There is an exciting opportunity for Australia's spirit industry to align indigenous culture and native products with ESG focussed products. Indigenous ingredients native to a particular location offer brands a distinctive and unique selling point.

Ultra-local botanicals have emerged as a signature for brands looking to be authentically rooted in a culture or geographic region. However, a number of brands are now working with local communities, too, in a bid to be more responsible in their sourcing practices.

Whether it's in limited-edition versions of global brands or niche, region-specific launches, using ingredients from a specific place can help brands to convey their brand story, or tap into and address larger consumer concerns such as [sustainability](#), fair labour practices and [the environment](#).

According to the NSW Government's *NSW First Nations Business Sector* a key barrier hindering growth and development of the native bushfoods and botanicals industry include unrealised opportunities to improve the marketing of native bushfoods, production methods and technologies; and the need to develop business models that can scale the industry in ways that sustain First Nations knowledge, culture, practices, and control¹.

Improved coordination would help the Australian spirits industry engage and collaborate with peak indigenous food advocacy bodies such as the First Nations Bushfood and Botanical Alliance Australia (FNBBAA).

The NSW First Nations Business Sector – A return to prosperity, used the use of pearl oyster flesh as a key ingredient in a new type of gin as an example of a recent innovative applications of native botanicals.

The growing international demand for authenticity and premiumisation extends to tourism that can drive significant growth in demand for cultural and natural tourism. The potential growth in the promotion of indigenous produce in Australian spirits presents a significant opportunity to develop First Nations businesses.

The increased use of indigenous and native ingredients by the Australian spirits industry presents an important opportunity to promote and produce in a way that is culturally respectful, environmentally and economically sustainable and culturally authentic.

The Australian Trade and Investment Commission notes that indigenous foods thrive in our visitor economy, with a priority on developing unique and high-quality products, including Aboriginal and Torres Strait Islander experiences. Presenting native foods in unique ways, generates unique visitor experiences.²

The Queensland Government has supported Beachtree Distilling Co to assess new production methodologies, source and screen raw materials, and develop a new range of products with native food ingredients. This will enable the company to process these products, scale up manufacturing and diversify their product offering.

The growth of the cultural and natural tourism industry presents an opportunity to grow a resilient workforce on Country. Jobs in this sector create more than just employment opportunities: they allow young people to locate themselves where they can remain connected to kin and culture, even as they transition from formal education to the labour market.

¹ https://www.treasury.nsw.gov.au/sites/default/files/2022-11/trp22-31-first-nations-business-sector-report_20221102.pdf

² <https://www.austrade.gov.au/en/news-and-analysis/news/indigenous-foods-thrive-in-our-visitor-economy>

EXPORT OPPORTUNITY

Based on the changing consumption patterns and consumer preferences, the Australian spirits industry has the potential to be at least a \$1 billion export industry by 2035.

According to research by Mandala Consultancy for the Australian Distillers Association and Diageo, 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.

The modelling shows that much of Australia's export potential is not being realised in key markets in Asia, such as India.

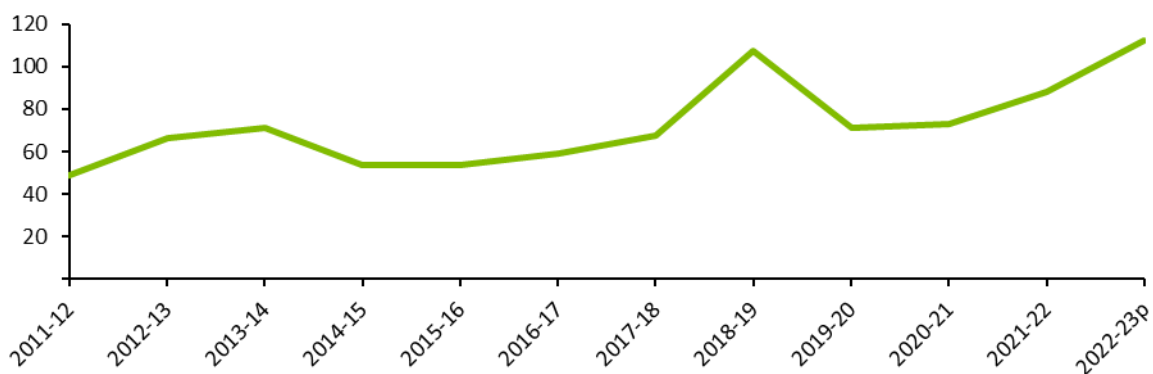
If Australia was to meet its export potential, Asia and Oceania would see the greatest uplift based on current export volumes given its proximity to Australia.

Domestic spirits manufacturers benefit from Australia's existing reputation for high-quality, safe, 'clean and green' food and beverage products, and as a provider of outstanding tourism and hospitality experiences.

Distillers have unrivalled access to unique ingredients, and the creativity and freedom to push the boundaries of what is possible with innovative, high-quality spirits. The product resulting from this industrial endeavour is objectively world-class; with Australian spirits producers having won almost every major international accolade, further emphasising the industry's export opportunity.

The total value of Australian spirits exports is currently estimated at \$US146 million per annum (UN Comtrade, 2022) but there are different methodologies and calculations, depending on what markets and what products are included. The graph below using a more limited baseline provides a useful track of 'selected' spirits.

Total value of exports of selected spirits from Australia FY12-FY23 (\$ millions)



According to research conducted by Deloitte for Spirits & Cocktails Australia, 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).

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.

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 can grow exponentially from this baseline with the correct policy settings and investment by government and industry, similar to the success enjoyed by the Australian wine industry over the last few decades.

TRADE BARRIERS

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, a great place to invest 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.

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.

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.

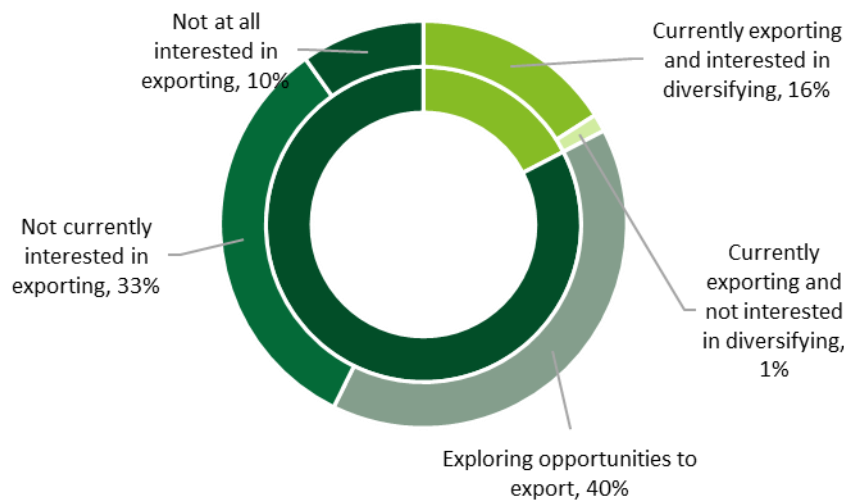
Our industry wants to be part of this race to seize the opportunities of the future; to create new jobs, make more products here, and prosper.

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.

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

Interest in exporting by survey recipients



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.

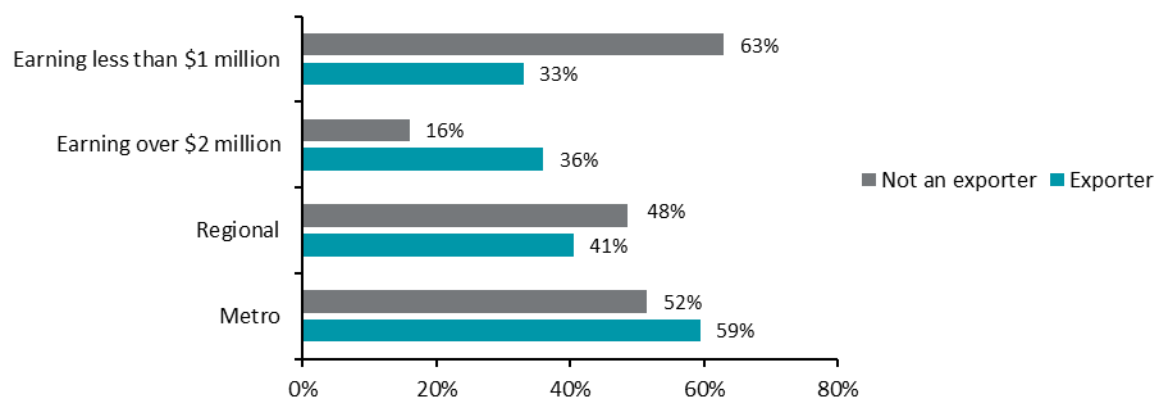
These challenges were borne out in the Spirits Industry Sector Competitiveness Plan by research firm Mandala, which found spirits producing nations with higher perceptions of country branding were much better able to achieve their trade potential.

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.

Location, size by export status



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.

The Need for Investment

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, purchase of existing businesses or greenfield investment into a new distilling or manufacturing asset.

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, logistics and investment and transport.

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

Global spirits manufacturers are currently dissuaded to invest in Australian distilleries to create a scalable domestic manufacturing industry, as high levels of excise ultimately make such investment prohibitive.

The Mandala report 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 UK, USA, and France.

While there have been a handful of examples of global drinks companies investing in domestic craft distilleries, there could be more of this activity to create a spirits industry of scale in Australia to compete with comparable markets to meet growing consumer demand for premium spirits products. Such investments in other markets, including Scotland, have delivered.

VALUE ADD

The Australian spirits industry creates high-value and highly skilled jobs in domestic manufacturing.

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

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

Increased export of high value Australian spirits generates additional demand for domestic agricultural produce. It is estimated by the Australian Distillers Association that \$300 of Barley creates \$40,000 of whisky. For example, 260 cases of Tasmanian Lark whisky sells for AUD\$43,000 on the export market.

Another example of value-adding to the economy is the collaboration between distillers and primary producers for the cultivation of heirloom grains, or working directly with local farmers, including indigenous producers, to bring unique Australian grains, fruits, and botanicals to commercial production.

Expanded trade opportunities for the Australian spirits industry can help promote increased local production that in turn promotes the value-add to Australian agricultural products and the local economy.

TOURISM EXPORTS

For Australian exports and in particular the tourism industry, distillery door is an important distribution channel especially for smaller craft distillers in regional areas.

Distillery door is 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.

Tourism exports are the value of spending on Australian goods and services by international visitors and the value of tourism exports was \$26.1 billion in 2022-23.

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% 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% 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 \$7m renovation that tripled visitor capacity at their Healesville site. This investment is acknowledged by the Four Pillars founders as a result of the direct foreign investment of a global alcohol company.

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 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 development of this 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.

HANDBRAKE ON GROWTH

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 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.

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 \$103.89 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. 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:

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.

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.

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.

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.

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.

FREE TRADE AGREEMENTS

There is an enormous potential for Australian distilled spirits to be a future export star of premium value-added food and beverage products, similar to the success enjoyed by the Australian wine industry.

There is significant opportunity to better leverage Australia's trade agreements and to better coordinate with other export industries such as wine and tourism to promote local produce and to build the Australian brand in key overseas markets.

Free trade and economic partnership agreements in the region can boost opportunities for Australian distillers, as regional markets are seeing excellent growth in demand for international premium spirits, particularly in economies like Vietnam, the Philippines, South Korea and Japan (all signatories to the recently signed Regional Comprehensive Economic Partnership). Even Myanmar has opened its market to premium international spirits this year, providing an opportunity for Australian spirits exports, particularly as rum and whisky are local favourites.

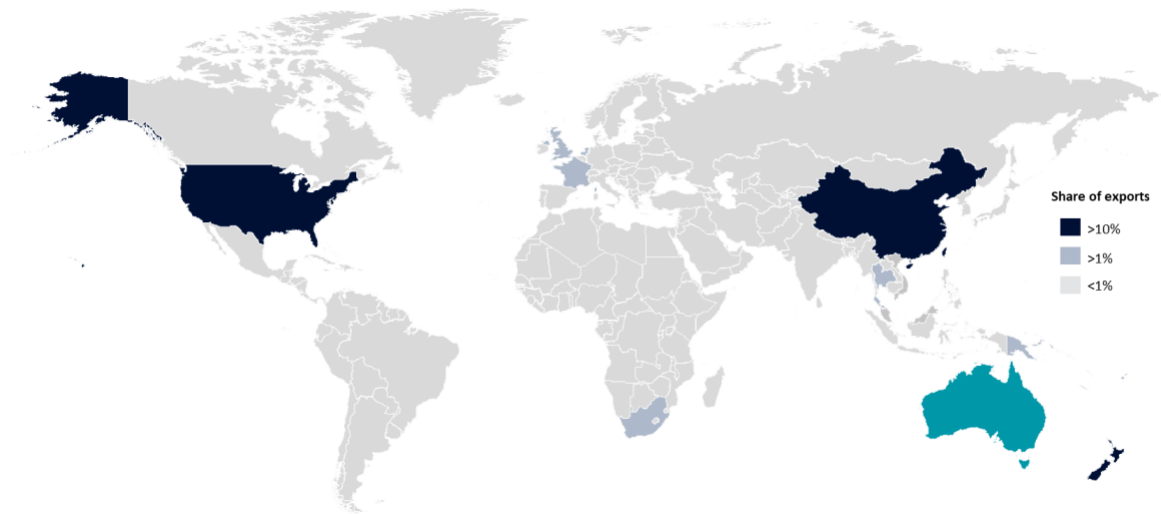
FTAs provide dedicated resourcing with adequate subject matter expertise to facilitate compliance with any new product descriptions, minimum standards and Free Trade Agreement obligations, to ensure product integrity in spirits made available for domestic sale and export.

While limited definitions enable Australian spirits producers to be more innovative, there is significant scope and ability to build on a regime of technical standards and 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.

Provide dedicated resourcing with adequate subject matter expertise to facilitate compliance with any new product descriptions, minimum standards and Free Trade Agreement obligations, to ensure product integrity in spirits made available for domestic sale and export.

Export destinations for Australian spirits, FY23



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 using 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.

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 technical standards and 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.

Tariff Reductions

Tariff reduction is a key focus of FTAs, and the Australian spirits industry supports trade liberalisation that either eliminate or reduce foreign tariffs on exports of Australian spirits.

We recognise that there are often legitimate grounds for some countries maintaining import restriction on spirits products for religious or cultural reasons but there must then discriminate against Australia products or imports.

According to Export Finance Australia, while Australian beverage exports remain dominated by wine, other segments are showing impressive growth. Exports grew strongly in FY2022 for whisky (to \$41 million), liqueurs and cordials (\$31 million), beer (\$24 million), gin (\$19 million) and vodka (\$15 million)—though export sales were still shy of combined peak \$301 million recorded in FY2019.³

The Australian spirits industry encourages the Commonwealth to pursue bilateral and multilateral trade agreements that remove impediments such as tariffs and that promote more open market access for our products. Reducing trade barriers enhances our ability attract investment and open new markets.

Non-tariff Barriers

In addition to removing tariffs on Australian spirits, FTAs should also address any relevant non-tariff barriers, as these can often be more punitive and complex to comply with. Spirits are a highly regulated product, and there are often specific compliance and regulatory burdens that complicate or add to our domestic requirements.

It is both the additionality of foreign rules and potential variance with Australian regulations that can present significant risks and compliance costs for Australian spirits producers seeking to export.

³ [Australia—Beverage exports diversifying by market and product \(exportfinance.gov.au\)](https://www.exportfinance.gov.au/australia-beverage-exports-diversifying-by-market-and-product)

As an example, the Australian spirits industry earlier this year requested that the Australia Government support our efforts to minimise the impost of labelling requirements in Thailand.

Australia's labelling extends to exports of alcohol products bottled and manufactured in Australia, and we are concerned about the potential impacts of the proposal by the Thai National Alcohol Beverage Control Committee to review alcoholic beverages labelling rules in Thailand and introduce graphic health warning labels and accompanying statements on alcoholic beverages.

Spirits and Cocktails Australia remains concerned about the compliance costs of these new labelling requirements and while we respect the authority of Thailand to regulate industries, we have significant concerns in relation to the proposals, namely that:

- The new labelling requirements may be trade-restrictive, and
- There needs to be greater alignment of claims-related labelling provisions with international standards (such as Codex).

From a trade perspective, we are concerned that issues such as this could be raised on a more substantial basis in the WTO Committee on Technical Barriers to Trade (TBT) which we firmly believe is the correct forum to examine the Thai proposal.

We raised these concerns with the Australian Government and requested that they be raised directly with the Government of Thailand and in the Technical Barriers to Trade Committee. We have noted that similar objections were raised by Australia when Ireland and the Republic of Korea also proposed labelling changes to alcohol beverages that were disproportionate to the public health goals raised to justify the changes.

These are the sorts of non-tariff challenges that Australian spirits exports face and the type of issue that we would like to see addressed if possible in any relevant trade agreements.

Upcoming FTA's

Australia's current Free Trade Agreements: Australia-New Zealand Closer Economic Relations Trade Agreement; Australia-United States (AUSFTA); Australia-Chile (ACI-FTA); Peru-Australia (PAFTA); Australia-United Kingdom Free Trade Agreement (A-UKFTA); Singapore-Australia (SAFTA); Thailand-Australia (TAFTA); Malaysia-Australia (MAFTA); Korea-Australia (KAFTA); Japan-Australia (JAIPA); China-Australia (ChAFTA); Australia-Hong Kong (A-HKFTA) and associated Investment Agreement (IA); Indonesia- Australia Comprehensive Economic Partnership Agreement (IA-CEPA).

There are also a number of economic partnerships: ASEAN-Australia-New Zealand (AANZFTA); Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); Regional Comprehensive Economic Partnership Agreement (RCEP); Pacific Agreement on Closer Economic Relations (PACER) Plus. Currently under negotiation are the:

1. Australia-European Union Free Trade Agreement

The EU is a more mature alcohol market, experiencing many of the same changes in consumption, taste and demand that are creating opportunities for high quality Australian spirits products.

2. Australia-India Comprehensive Economic Cooperation Agreement (CECA)

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

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.

3. Australia-UAE Comprehensive Economic Partnership Agreement

The Middle East is another emerging market, with a large proportion of young people and a number of societies moderating social restrictions on behaviours and practices that may present opportunities for high quality Australian spirits exports.

And under consideration is an Australia-Gulf Cooperation Council (GCC) Free Trade Agreement.

The Australian spirits industry notes that countries with more favourable trade support and conditions are more likely to realise their export potential.

While it is encouraging that Australia already has 18 FTAs covering 29 countries, this is lower than top exporters such as the UK with 38 agreements covering 99 jurisdictions.

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, as well as those made in the industry submission to the House Standing Committee on Industry, Science and Resources inquiry into Food and Beverage Manufacturing in Australia.

Wine Australia has played a key 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.

The findings of the Mandala report confirms the establishment of a body such as Spirits Australia could enable the Australian spirits industry to be a \$1 billion exporter by 2035.

The Australian spirits industry recommends to the Joint Standing Committee on Trade and Investment Growth, that a Spirits Australia body would greatly assist Australia in promoting trade opportunities and in realising the full benefits of Free Trade Agreements.

Promoting Australian Spirits

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.

ILLCIT & ILLEGAL TRADE

The Australian Tax Office (ATO) is concerned about the volume of alcohol products that are being sold, offered for sale, or entered into the Australian domestic market for consumption without the required excise or customs duty being paid.

The ATO estimates that around 91% or \$7.4 billion of the expected alcohol duty is collected, leaves a tax gap of 9.1%, or \$745 million.

Around \$660 million or 88.4% of the unreported alcohol duty is because of illicit activity in the shadow economy.

Internationally, distilled spirits make up more of illicit alcohol consumption than fermented beer and wine, due in part to their higher cost and alcohol content.

The Australian spirits industry is concerned that the drivers of illicit trade are exacerbated by cost-of-living pressures that make illicit products more attractive.

The World Health Organization (WHO) has previously estimated that the unrecorded alcohol market in Australia is 7.5 per cent of total per capita alcohol consumption.

In 2019 KPMG was engaged by the Department of Home Affairs to analyse the illicit trade in alcohol, and based on the WHO estimates KPMG calculated that the illicit trade could be as high as 205 million litres of pure alcohol. Victorian Police estimate that 2.4 million bottles of illegal alcohol enter the market every year.

The ATO has increased its focus on illicit alcohol products, stating that:

“The ATO is obviously concerned about the tax leakage and the unfair impact on businesses that do the right thing, as well as the broader community threats, including the health and safety risks inherent in the consumption of illegally manufactured alcohol.”

The WHO⁴ warns that the shift to online purchasing is increasing the availability of unrecorded alcoholic beverages and production equipment regardless of the country of origin and escalating the issue at a global level.

⁴ [Unrecorded alcohol: what the evidence tells us \(who.int\)](#)

Impact on Health & Safety

The WHO⁵ estimates that 25% of worldwide alcohol consumption is ‘unrecorded’, illicit or illegal, and that the usually lower price of this type of alcohol, its appeal to consumers from low socioeconomic status and people with underlying alcohol use disorders, irregular labelling and thus often unknown ethanol percentage by volume and the presence of potentially toxic compounds, as well as a complex interplay of these factors, can make unrecorded alcohol potentially more harmful than regulated alcohol

According to the OECD report ‘Illicit Trade in High-Risk Sectors: *Implications of Illicit Alcohol for Public Health and Criminal Networks*’:

“The market for alcohol products is an attractive target for illicit trade and organised crime as the market is large, as are the profits that can be made from the illicit trade, in some cases with little investment. The ease with which consumers can be deceived into buying illicit products, and the low risk of detection for all forms of illicit trade, create suitable conditions for eluding law enforcement.”

In addition to the involvement of organised crime in illicit alcohol, a major risk is the health problems associated with the unregulated alcohol products.

Illicit alcohol is a critical global public health issue because it is produced without regulatory and market oversight with increased risk of safety, quality and adulteration issues.

The ATO says the toxic chemicals found in illicit alcohol “are all unfit for human consumption and can cause serious illness or death”.

Illicit alcohol can have a higher ethanol content and may contain methanol – which can kill even in very small quantities – can cause blindness, or organ damage.

Inferior distillation processes used by counterfeiters can introduce methanol or fail to sufficiently remove methanol from final products.

These products are responsible for hundreds of cases of death and illness due to accidental methanol intoxication and the health risks affect the poorest and most vulnerable consumers by contributing to widening health inequalities.⁶

It has been reported that in Australia crime syndicates have been mixing regular drinking spirits with denatured alcohol used to manufacture paint stripper, brake fluid and synthetic rubber.

⁵ <https://www.who.int/publications/i/item/9789240044463>

⁶ https://www.tracit.org/uploads/1/0/2/2/102238034/illicit_alcohol_-_white_paper.pdf

Victorian Police state that many alleged drink-spiking incidents may be a result of consuming bootlegged spirits bought in good faith over the bar at supposedly legitimate clubs:

“Drink spiking is not wholly attributable to drugs and can involve illicit liquor;”

The Tweed/Byron District police stated after Schoolies Week in 2023 that drink spiking incident was investigated and “no evidence has been found in this instance”.

The lack of confirmation of reported drink spiking may suggest the influence of methanol which is difficult to detect.

The Australian spirits industry would like to see a specific investigation or inquiry into the link between drink spiking and illicit alcohol.

Impact on Industry

Illicit trade in alcohol seriously damages the legitimate sector, reducing its ability to grow, invest and employ; and it also depresses the tax revenues that government could normally expect to receive.

That cost is significant: an EUIPO study in 2016 found that intellectual property infringements in the EU spirits sector reduced sales by around €740 million, or 4.4% of total revenue.

According to Euromonitor’s 2018 Global Study on Illicit Alcohol, 1 in 4 alcohol bottles are illicit, representing 25.8% of all global consumption.

Illicit trade in alcohol is widespread, representing significant percentages of alcohol consumption worldwide and stripping governments of billions of dollars in tax revenues

For industry, the main impact relates to lost market shares, costs related to intellectual property theft, reputational damage and lost consumer trust.

Role of Tax

Importantly for policy makers and regulators, the OECD illicit trade report states that ***“As a general rule, illicit alcohol trade is closely linked to the low affordability of products.”***

Another OECD report states that taxes on alcohol *“can create additional incentives for counterfeiters to enter the market and supply illicit alternatives.”*

The ‘Size and Shape of the Global Illicit Alcohol Market’ report released by the Transnational Alliance to Combat Illicit Trade (TRACIT) states that excessively high taxes that incentivise players to maximise profits by entering the illicit market:

The TRACIT white paper recommends that governments *“Avoid excessive and discriminatory taxation and regulation to the licit players because they can have unintended consequences.”*

A UK research report by the Royal Agricultural University found that high taxes or complex tax systems and “evading the associated taxes and excise duty” are strong economic driver for individuals and organisations to engage in illicit practices.⁷

The Royal Agricultural University study warns that minimum unit pricing “might increase the incentive for illicit behavior” as “Consumption of illicit alcohol may grow as licit alcohol price increases.”

According to research by Euromonitor International:

*“Consumers of all income levels purchase illicit alcohol for various reasons, but the commonality is that the illicit products they buy tend to have lower prices than their licit counterparts. **Government policies such as high excise taxes affect the prices that consumers must pay for licit products.**”⁸*

Research by the International Tax and Investment Centre (ITIC) and published in the World Customs Journal on ‘Understanding the drivers of illicit alcohol: an analysis of selected country case studies’ states that:

“Complementary to the WHO’s concerns, this paper seeks to add an additional perspective by suggesting that high rates of tax cause diversion to the illicit market, and the analysis of that market should include the effects of taxation. Government policies on alcohol and taxation should therefore account for the illicit market and avoid diversion to it, to reduce harm to public health.”⁹

The Australian Tax Office in its campaign against illicit alcohol has acknowledged the link between tax and bootlegging, stating that:

“As with most Excise gaps, the amount of the gap increases each year as duty rates increase.”

The industry is concerned that during a period of sustained inflation and high cost-of-living pressures, more Australians will be forced into the illegal trade in alcohol and that the Commonwealth needs to account for these social and economic drivers in setting the right tax and regulatory arrangements for the spirits industry.

The WHO ‘Global status report on alcohol and health 2018’ report states that ‘unrecorded’ alcohol may contain higher ethanol content and potential contaminants, and the low cost can promote heavy drinking. In addition, it is difficult to gauge the level of consumption for

⁷ Manning L, Kowalska A. Illicit Alcohol: Public Health Risk of Methanol Poisoning and Policy Mitigation Strategies. *Foods*. 2021 Jul 13;10(7):1625. doi: 10.3390/foods10071625. PMID: 34359495; PMCID: PMC8303512.

⁸ https://www.tracit.org/uploads/1/0/2/2/102238034/illicit_alcohol_meta_study_-_euromonitor_.pdf

⁹ Witt, Daniel and Janos Nagy. “Understanding the Drivers of Illicit Alcohol: An Analysis of Selected Country Case Studies.” *World Customs Journal* (2022):

unrecorded alcohol, thus undermining countries' efforts to tax and control legal alcohol production.¹⁰

Recommendations

The industry is working with the ATO on solutions to the problem, with the adoption of Blockchain technology in the Australian spirits industry potentially delivering annual savings to the Budget of around \$200m.

The spirits industry would suggest that the Commonwealth work with the industry to ascertain the potential value of the savings and how the Government could support the industry adoption of Blockchain technology.

The Transnational Alliance to Combat Illicit Trade (TRACIT) recommends that once introduced into the market, either by import or domestic production, regulations should establish robust tracking and regulatory mechanisms to foster transparency and accountability in the ethanol supply chain. These measures include stringent record-keeping requirements, such as the quantity, source, destination, and purpose of ethanol shipments, robust license / permit requirements for all businesses or individuals trading in ethanol.

¹⁰ <https://iris.who.int/bitstream/handle/10665/274603/9789241565639-eng.pdf>

CONCLUSION

A growing spirits industry, which is scaled to promote export, can help to stimulate economic growth in manufacturing, hospitality, tourism and agriculture as businesses expand to meet increased international demand for quality Australian spirits.

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.

Free trade and economic partnership agreements in the region can boost opportunities for Australian-made spirits.

With Federal Government support, funding and analysis, the Australian spirits industry can realise its potential to become an export powerhouse.

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.

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 settlements and inaction has placed Australian-made spirits at a significant competitive disadvantage in our home market and abroad.

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.

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.

The Government can help the Australian spirits industry achieve its export potential through a Spirits Industry Global Growth Strategy.

We commit to working with the Government to co-design appropriate solutions to realise this potential and enhance our contribution to the Australian economy.

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