

AUSTRALIAN REAL CRAFT BREWERS & THE NEED FOR EXCISE RELIEF AND GOVERNMENT SUPPORT

WHITE PAPER

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Brewers Association (ARCBA) Excise Relief Committee.

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EXECUTIVE SUMMARY

The Australian Real Craft Brewers Association (ARCBA) seeks to build high quality small independent brewers and strong, sustainable brewing businesses in Australia. We must ensure the viability and growth of the Australian small real craft beer industry to achieve parity of excise taxation and ensure fair trade and competition with other countries around the world.

In order to build strong and sustainable small independent brewers, we are seeking excise relief for beer to remove the disparity between 1) Australian beer and beer in the rest of the world and 2) the disparity between Australian wine and Australian beer. The benefits of increased excise relief will create jobs, manufacturing, export and tourism opportunities and thereby ensure the viability and expand the growth of Australian small breweries.

The Federal Government needs to provide the support and funding in the form of the following initiatives:

1. Significant and immediate increase to the amount of the excise rebate on beer available to small, independent breweries. It must be remembered that small independent brewers still pay 40% excise tax up to the rebate amount and 100% beyond the rebate amount. ARCBA recommends increasing the excise rebate over a five year period up to the OECD 33 average to bring the Australian excise rebate in line with the rest of the world.
2. Annual funding for quality training and testing to get Australia's local small and independent breweries export ready and then to start developing export markets and exporting. (The US Government currently gives \$US450,000 per year to the industry)
3. Access to investment grants offering matched funding for small independent real craft breweries from the Government. This will be used to build domestically produced and Australian owned small independent real craft beers, to further build tourism, jobs and export revenues.

Further excise relief and funding commitments will finally put Australia's small real craft breweries on an equal footing with other small breweries in the OECD, US and around the world, virtually all of whom enjoy significant excise tax incentives in their home markets.

There has been and continues to be significant disparity between the Australian beer tax system to the rest of the beer world and between Australian beer and Australian wine. This goes against the Australian Government's aim to ensure Australia's taxes are in line with OECD countries, and in particular OECD 10 countries. We need the Federal Government to give their support and bring Australia on to a level playing field with the rest of the world.

Increasing the maximum excise rebate will create 35% to 58%¹ growth each year for the small independent breweries, thereby creating new jobs and increased sales revenues which will stimulate growth, employment and rural opportunities.

The governments of 22 out of 33 OECD countries recognise that they have to support local small independent breweries through excise tax reductions to support domestic beer production, to stimulate employment in manufacturing and tourism industries..

¹ Brewers Association of America website in History of American Beer

If local small independent brewers can reclaim jobs lost to imported beers and regain 50% market share of imported beer physically brought into the country (which represents \$A200 million), this would represent \$A100 million in new production and revenue in Australia. This revenue would create 28.5 million litres of beer (calculated with a cost of \$3.50 per litre) which in turn creates 114 jobs in the brewing sector and 1,782 jobs in the supply, hospitality and retail sectors. For every one job created in the real craft brewing sector, it generates 15-16 jobs in the supply, hospitality and retail sectors.²

Providing significant and effective support to Australia's small independent breweries, the Government will provide valuable economic stimulus, which will create new jobs, increase local manufacturing, grow export opportunities and increase tourism in Australia. This is consistent with the direct experience in UK, Canada and USA when excise relief was implemented in these countries.

THE EXPORT OPPORTUNITY FOR AUSTRALIA AND ITS BEER INDUSTRY

We are seeking Government support to help develop the existing export market for Australian beer from a \$A0.5 billion industry into a multi billion dollar export market as we prepare to move into the Asian century. The Australian beer export market can utilise the experience and the Australian reputation created by the Australian wine industry.

Australia makes up around 32% of the world's malted barley trade.³ Australia exports over 75%⁴ of all malted barley to Asia which reflects the high quality of our grains and malted barley. The Australian beer industry uses the other 25% of Australia's malted barley. Hypothetically, if Australia used all of the exported malting barley, it could build its beer production and thereby the beer export market into potentially a \$A15 billion dollar export market.

Internationally, Mexico exports 21% of its beer produced, Netherlands exports 19% and Germany exports 13% of their beer.⁵ In contrast, Australia currently exports 8.9%⁶ of all beer produced and our wine industry exports 60% of all wine produced in Australia.

If the Australian Government helps to grow beer exports to levels similar to other countries at 21% or to levels similar to the wine industry of 60%, then Australia's export beer market could represent \$A1 to \$3 billion dollars fairly quickly. It can then focus on building the export market into a \$15 billion dollar industry through the Asian century.

To grow the Australian export beer market, Australian small breweries need to build strong and sustainable businesses in Australia, to prepare for and develop the export market.

BACKGROUND

The Australian Real Craft Brewers Association (ARCBA) is a national not-for-profit organisation representing small independent real craft brewers in Australia. It is these small independent breweries who are developing diversity in beer flavour, styles and choice.

² Source: Calculation based on data within the Ernst & Young calculation (2011) within The Contribution made by Beer for the European Economy, chapter 4 Total Employment

³ www.barleyaustralia.com.au

⁴ IBISWorld Industry Report C2182 Beer and Malt Manufacturing in Australia, May 2012

⁵ www.EuroMonitor.com

⁶ IBISWorld Industry Report C2182 Beer and Malt Manufacturing in Australia, May 2012

Australia's small independent brewers push the boundaries when it comes to innovation and quality as they specialise in brewing beers with flavour, taste, character and are uniquely Australian and have a real point of difference.

The Australian Real Craft Brewers Association (ARCBA) provides a unified voice on issues confronting our sector of the Australian brewing industry. One of the Association's main objectives is to achieve excise reform and ensure the viability and growth of our real craft beer industry and parity of excise taxation to ensure fair trade and competition with other countries. Supporting Australia's small independent brewers will result in stimulating employment opportunities especially in the areas of small scale manufacturing & tourism, particularly in regional areas.

The Federal Government did provide some excise tax relief effective from 1 July 2012. **Australian real craft brewers are very much appreciative of this support and these dollars have been put to good use** within our businesses as capital investment or employment opportunities. However, these reforms did not go far enough.

From an international perspective, the Australian real craft brewing industry desperately needs support in the way of greater excise reform in the highly globalised world we find ourselves in. On the domestic front, local brewers are increasingly competing directly against imported beers which have considerable taxation advantages and government support in their country of origin.

It is from this international perspective, that ARCBA has prepared this White Paper to address the significant inequality of excise taxes on beer within Australia relative to the rest of the world and relative to Australian wine.

PART 1 – INTERNATIONAL PERSPECTIVE OF THE TAXATION OF BEER & ALCOHOL

Excise duties are generally applied to alcoholic beverages in two main ways:

1. the alcoholic content of the product (volumetric tax)
2. the value of the product (ad valorem or value-based tax)

In Australia, beer and spirits are taxed on a volumetric basis whereas wine is taxed on a value-basis (ad valorem basis). The rates of excise tax for beer and spirits are adjusted every six months in August and February in line with half yearly CPI movements, whereas the wine equalisation tax rate has not changed since it was introduced in 2001.

Comparatively, from an international perspective, tax rates on beer, wine and spirits are indexed yearly in New Zealand and tax rates are usually increased in the annual budget in the UK. On the other hand, tax rates on excise duty seem to increase rarely in the United States (federal excise duties), Canada, Japan and Germany.

The international comparison of Australian taxes last conducted by the Australian Government Treasury in 2006 considered Australia relative to the OECD 10 countries. It served to demonstrate the differing and complex calculations of excise duties on beer within these countries. However, the report did not produce any conclusive comparison.

ALCOHOL TAXATION POLICIES

The International Centre for Alcohol Policies ICAP Report - 18 May 2006 provides a concise explanation of how alcohol taxation fits into the government budget and broader fiscal and social policies and some of the challenges and issues that may arise.

*"Like many other commodities, beverage alcohol is subject to taxation. These taxes are levied by national, state or local (county or city) governments, and often in combination with each other. The main purpose of taxation is to generate government revenue. However, governments also use taxes on beverage alcohol for several other purposes: to attempt to reduce abuse and harm by making alcohol less accessible; **to create trade barriers; to encourage the purchase of domestic over imported products.**"⁷*

*In establishing alcohol policies, governments must weigh commercial freedoms and consumers' rights of access to a product against protecting their citizens. **This includes determining levels of taxation that do not impose an undue burden on consumers and restrict their choices or penalize producers by restricting fair trade practices.** Like any policy measure that addresses the general population, taxation is a blunt tool and does not differentiate between problematic and unproblematic drinking patterns".⁸*

It is these considerations and sometimes conflicting interests that governments must understand and give due consideration when determining policies and frameworks.

URGENT NEED TO COMPARE AUSTRALIAN TAXES TO THE REST OF WORLD

There is a lack of comprehensive international data comparing excise taxation in Australia and other countries around the world. Europe and European brewers have been doing a lot of work in this regard of late and more data is becoming available over time particularly as it relates to those countries within the EU. Closer to home though, Australian brewers are acutely aware that they operate under a very heavily taxed environment relative to many of their overseas competitors. This disparity between Australia and other OECD countries needs to be addressed as a matter of priority.

It is particularly important, now more than ever, for Australian small and independent brewers to be able to compete on a level playing field with international brewers as Australian small real craft brewers are facing tough competition for retail shelf space, taps and on price against imported beer and beer produced locally by the foreign owned multi-national brewing conglomerates.

The Australian Treasury Department last provided a schedule of international comparatives for excise tax paid on beer in 2006 (refer to Table 5.1). Whilst a table was produced, it did not produce any conclusive comparison of excise taxes across OECD 10.

ARCBA has met with and been advised by Treasury that the Government uses OECD figures for comparative purposes when reviewing the Australian taxation regimes. In particular, Treasury looks at the OECD 33 and the OECD 10 countries.

The Australian Government and its Treasury have stated that their aim is to keep Australian taxes in line with OECD countries.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Historically, the Australian Government has referred to the OECD countries to ensure Australian businesses and industries have relative parity. The Government continues to use the OECD countries as a benchmark in a global world.

⁷ Alcohol Taxation ICAP Report 18 by International Centre for Alcohol Policies May 2006 – VII Conclusions

⁸ Alcohol Taxation ICAP Report 18 by International Centre for Alcohol Policies May 2006 – VII Conclusions

The Organisation for Economic Co-operation and Development (OECD) is an international economic organisation of 34 countries founded in 1961 to stimulate economic progress and world trade. It is a forum of countries committed to democracy and the free-market economy, providing a platform to compare policy experiences, seek answers to common problems, identify good practices, and co-ordinate domestic and international policies of its members.

The OECD promotes policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, nondiscriminatory basis in accordance with international obligations.

COMPARISONS TO OECD 10 AND OECD 33 COUNTRIES

The objective of this White Paper is to provide data and analysis on how Australia's excise taxes compare with those in other countries. To this extent, we have compared Australia against all of the OECD countries. However, we recognise that Treasury compares Australia's tax system with a subset of comparable countries (the OECD 10).⁹ The other nine members of the OECD 10 are Canada, Ireland, Japan, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom and the United States. Treasury aim to keep Australian taxes in line with OECD countries, and in particular the OECD 10 countries.

These nine members of the OECD 10 are selected because they are broadly similar to Australia in terms of their overall tax to GDP ratio and the role of the government sector in their economies. The size of the subset needed to achieve a balance between the degree of similarity between the comparator countries and a sufficiently large sample of countries to provide meaningful comparisons without imposing excessive information collection demands.

Another factor which needs to be taken into account is that Australia is generally regarded as a low-tax country, both currently and historically. Australia's tax mix is in line with OECD 33 countries, although there are some distinguishing features.¹⁰ Australia's overall tax burden (25% tax to GDP) is the eighth lowest of the other 33 members of OECD. Whilst Australia as a whole has a lower tax burden relative to other OECD countries, the same cannot be said for the Australian beer industry.

We believe the excise tax comparison should include the OECD 33 countries as there is a number of countries in OECD 33 that we compete with in Australia that are not in OECD 10.

The comparison of countries' excise tax regimes is a challenging task. Caution was exercised in gathering data, collating the figures and analysing the results. Therefore, for completeness, we have compared data for both OECD 33 and OECD 10 to ensure

⁹ Report on International Comparison of Australian Taxes by the Australian Government Treasury, April 2006 /Executive Summary

¹⁰ Report on International Comparison of Australian Taxes by the Australian Government Treasury, April 2006 /Executive Summary

inclusion of many European countries which are important from a beer industry perspective.

PREPARATION AND ANALYSIS OF INTERNATIONAL TAX DATA

ARCBA has performed a very detailed and time consuming exercise to update and complete the international comparison schedule which was last collated in 2012. All information sourced and used by ARCBA has been obtained from publicly available information from reputable national and international organisations and associations.

ARCBA has used the OECD 2012 taxation data as at 1 January 2012¹¹ as our starting point. We have kept our tables basically in the same format as the Australian Treasury's excise tax tables for ease of use. Our detailed calculations are collated in Table A – Taxation of Beer (OECD 33 Countries). Table B represents a more condensed version of the data summarising the key attributes for each country.

Reference is made to data within this report from the following tables and this report is to be read in conjunction with these tables:

1. Table A – Taxation of Beer (OECD 33 Countries)
2. Table B – Summary of Taxation of Beer (OECD 33 Countries)
3. Table C: Table 5.1 - Taxation of Beer (data as at 1 January 2012)¹²

OECD countries calculate excise on a range of different measures:

- hectolitre per degree Plato
- hectolitre per one degree Plato
- per volume of beer
- per litres of alcohol (e.g. Australia and New Zealand)
- percentage of the value of the product or manufacturers price

The OECD taxation data converts amounts in excise per hectolitre per degree of absolute alcohol. For comparative purposes, ARCBA applied excise duties for beer on 4.8% abv (or 12° Plato) so that figures for each member country could be compared to the data in the European Beer Statistics Report - 2012 Edition¹³. Where data was missing from the original Table 5.1 for several countries, ARCBA conducted extensive research for each country to understand their specific taxation structure to provide as complete a picture as possible for all OECD countries.

Korea, Mexico and Turkey apply their liquor tax as a percentage of the value or manufacturers price of the product. As this data is difficult for ARCBA to obtain and does not use the Plato or alcohol percentage, these three countries have not been included in this review.

Some OECD countries provide excise tax relief to the smaller breweries by way of a reduced excise tax rate. To enable direct comparisons between countries, ARCBA calculated what the effective excise tax paid was for the relevant production volume in their respective national currencies. These amounts are then divided by the OECD Purchasing Power Parity rate to give the amount in US dollars and thereby facilitate direct comparisons.

ARCBA then calculated the maximum excise relief available to each country, if applicable and converted it to US dollars. This means that a local producer receives tax relief up to this dollar amount if their production volumes reach the required levels.

For example, in Australia, a brewer needs to brew approximately 50,000 litres (or 500 hectolitres) of beer to receive \$A30,000 excise tax relief. Then \$A30,000 is divided by

¹¹ OECD 2012 – National Delegates position as of 1 January 2012 Taxation 5.1 Taxation of Beer schedule

¹² OECD 2012 – National Delegates position as of 1 January 2012 Taxation 5.1 Taxation of Beer schedule

¹³ 2012 Edition of The Brewers of Europe Beer Statistics Report.

1.56 which is Australia's OECD Purchasing Power Parity rate to give \$US19,231 as the total value of the maximum excise rebate.

OECD PURCHASING POWER PARITY (PPP)

OECD Purchasing Power Parity (PPP) is an economic theory and a technique used to determine the relative value of currencies, estimating the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to (or on par with) each currency's purchasing power. It asks how much money would be needed to purchase the same goods and services in two countries, and uses that to calculate an implicit foreign exchange rate. Using that PPP rate, an amount of money thus has the same purchasing power in different countries. Among other uses, PPP rates facilitate international comparisons of income, as market exchange rates are often volatile, are affected by political and financial factors that do not lead to immediate changes in income and tend to systematically understate the standard of living in poor countries, due to the Balassa–Samuelson effect.¹⁴

The OECD countries divide the local or national currency by the published PPP to calculate an equivalent amount in US dollars. ARCBA has followed the same approach to ensure consistency. The Purchasing Power Parity rates were sourced directly from Table C: Table 5.1 (the 2012 taxation table in Tables and Appendices).

¹⁴ Wikipedia as at 8 February 2013

PART 2 – COMPARISON BETWEEN AUSTRALIA AND OTHER OECD COUNTRIES

VARYING AMOUNTS OF EXCISE TAX PAID ACROSS OECD COUNTRIES

We have calculated the specific excise tax rate or the amount of excise tax paid for a 4.8% alcohol beer per hectolitre for each OECD country below.

Chart 1

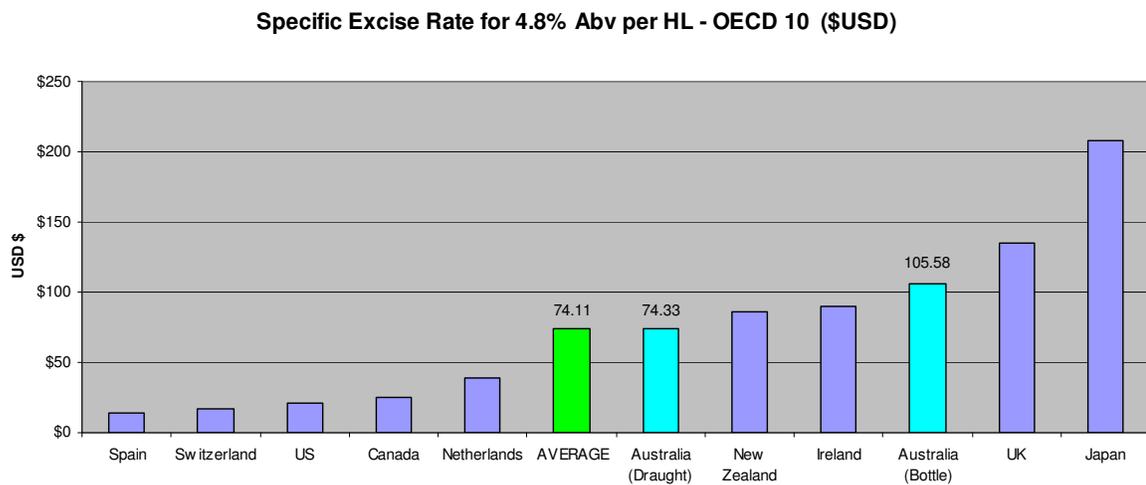
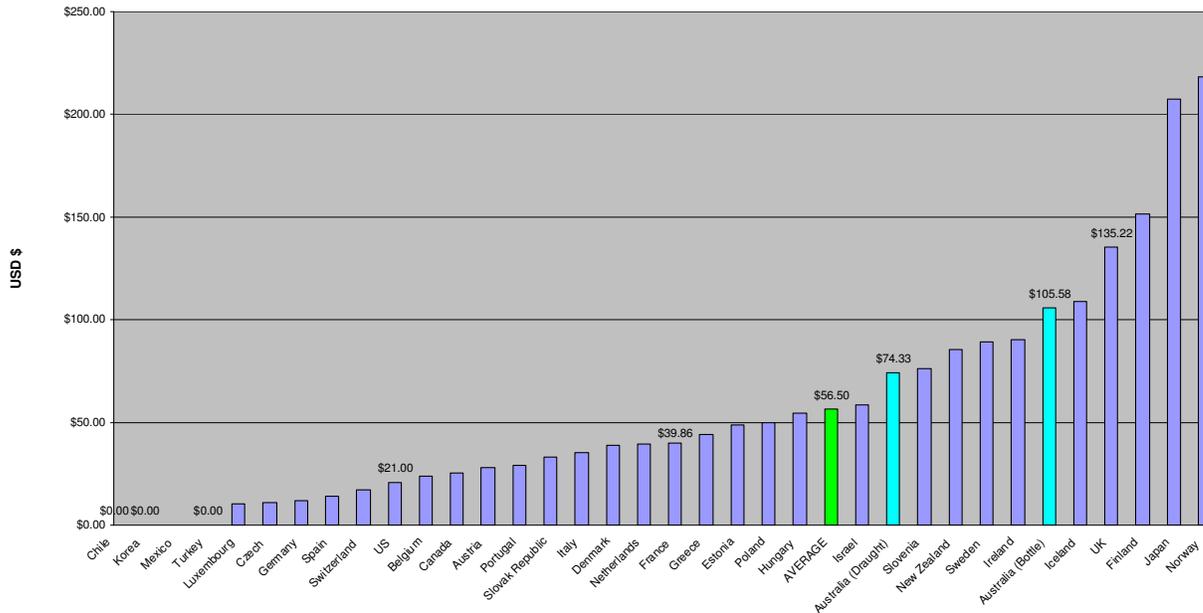


Chart 2

Specific Excise Rate for 4.8% Abv per HL (\$USD) - OECD 33



Note: Australia is split between Draught and Bottle

When comparing the amount of excise tax paid for 4.8% ABV per hectolitre (in \$USD) between the OECD countries:

OECD 10 – Average is \$US74.11, the Australian draught excise tax rate is close to the average but the Australian bottle excise tax rate of \$US105.55 is 1.5 times the average.

OECD 33 – Average is \$US56.50, whereas Australia’s excise tax rate for bottles of \$US105.55 is nearly 2 times the average and draught tax rate of \$US74.33 is 1.5 times the average.

It is important to note that this data (in isolation) and this simple comparison needs to be reviewed with caution as the data does not highlight the fact that many OECD countries give small and independent breweries excise taxation relief. The definition of ‘small and independent’ varies greatly around the world and indeed within OECD countries. The extent of excise relief also varies considerably by country.

There are also limitations with the raw data as some countries would appear to have very high nominal excise tax rates. For example, Finland and Norway both have very high excise rates. However, it is important to realise that both of these countries have 43% total tax revenue as a percentage of Gross Domestic Product. These two countries have considerable social welfare support infrastructure which redistributes the tax revenues. While the nominal excise tax rate is nearly two times that of Australia, their total tax revenue as % of GDP is nearly 2 times that of Australia.¹⁵

In contrast, the US has a tax to GDP ratio of 25% in 2012 which is the same as Australia’s percentage in 2010 (25%). Yet Australian small independent breweries are paying 10 times the level of excise duty to their American counterparts.

¹⁵ Taxation: Key tables from OECD - ISSN 2075-8510 - © OECD 2012

DISTINGUISHING BETWEEN BOTTLED AND DRAUGHT BEER

ARCBA has written confirmation from the European Commission, that **Australia is the only country in the OECD that has a differential excise rate for bottle versus draught beer**. All other countries simply have one excise tax rate that applies equally to bottled or draught beer.

As illustrated in Chart 1 in this report, Australia is the only OECD member that distinguishes between beer sold in bottles versus beer sold in draught (kegs). Australia has a full benchmark tax rate of \$US105.55 for bottled product versus a concessional tax rate of \$US74.32 for draught beer.

This particularly hurts Australian small breweries as the majority of their production volume is bottled. Australia, unlike other countries around the world, has a duopoly where the two major breweries (Fosters owned by SABMiller and Lion Nathan owned by Kirin Holdings) restrict access to on-premise taps as the majority of all taps are contracted with these breweries. It is well known that bottled beer has a considerably higher cost of manufacture than draught.

It is worth noting that Australian Treasury only includes the lower concessional excise tax rate of \$US74.32 in the OECD taxation comparisons and the full benchmark bottled excise tax rate of \$US105.55 is not disclosed. However, for the purposes of this White Paper, we use both the benchmark (bottled) and concessional (draught) tax rates.

THE DEFINITION OR CLASSIFICATION OF A 'SMALL BREWERY'

Of the 33 OECD countries, 21 countries give small breweries excise tax relief to some degree. The extent of any taxation relief varies both in the classification of what defines a 'small and independent brewery' by way of the production threshold at which taxation relief applies and the dollar amount of the excise tax rate that applies to beer production below these thresholds.

We have looked at each country's taxation regime and whether they recognise the classification of small brewery and if so, how they define 'small'.

Chart 3

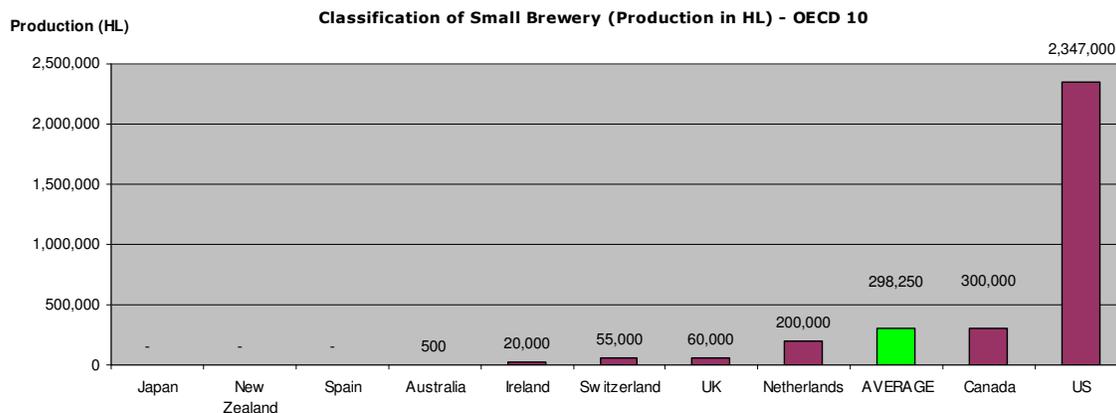
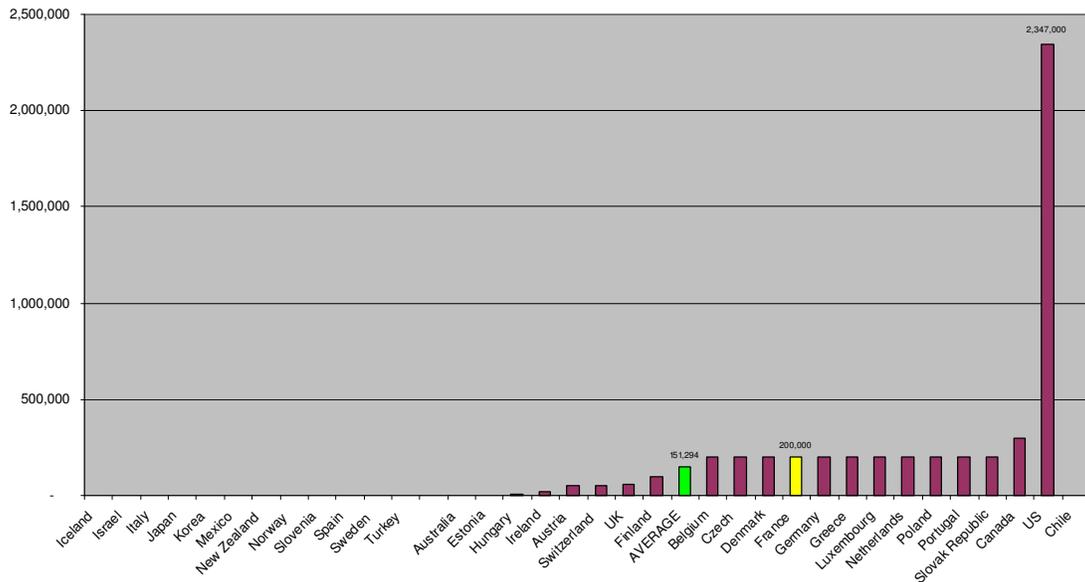


Chart 4

Classification of Small Brewery (Production in HL) - OECD 33



The range of definitions of 'small brewery' for some OECD countries are:

Country	Definition of 'Small Brewery' (HL)
Australia	500
Ireland	20,000
UK	60,000
Average - OECD 33	151,294
France	200,000
Germany	200,000
Average - OECD 10	298,250
Canada	300,000
US	2,347,000

As illustrated in the chart above, there are considerable variations on what different countries define as a 'small' brewery. Of the OECD 10 countries, three do not separately classify small breweries. Of 33 OECD countries, there are 22 that distinguish between small and large breweries and 11 do not distinguish between small and large breweries and therefore the same excise tax rate applies to all beer produced. Several European countries have adopted a 200,000 hectolitre criteria to define a small brewery such as Germany, France and Belgium. The European Community is currently lobbying to adopt 200,000 HL as a standard basis across the EU. America defines a small and independent brewery to be any brewery with a production volume up to 2,347,000 hectolitres. Canada defines a small brewery up to 300,000 hectolitres (refer to the Chart above).

On 1 July 2012 when the Australia Government increased the excise rebate level from \$10,000 to \$30,000, it effectively redefined what it classified as a 'small and independent' brewery as less than 500 hectolitres. This volume of 500 hectolitres of beer represents a mere 0.25% of the maximum threshold of 200,000 hectolitres used by 11 OECD countries or a miniscule percentage at 0.021% of the American threshold of 2,347,000 hectolitres. Australia's limit of 500 hectolitres is the lowest figure amongst the 22 countries providing any taxation relief to small brewers.

Of the 11 OECD countries that do not define a small brewery and therefore do not provide excise relief to these small operators, these countries typically pay a lower nominal excise rate and therefore lower effective amount of excise tax.

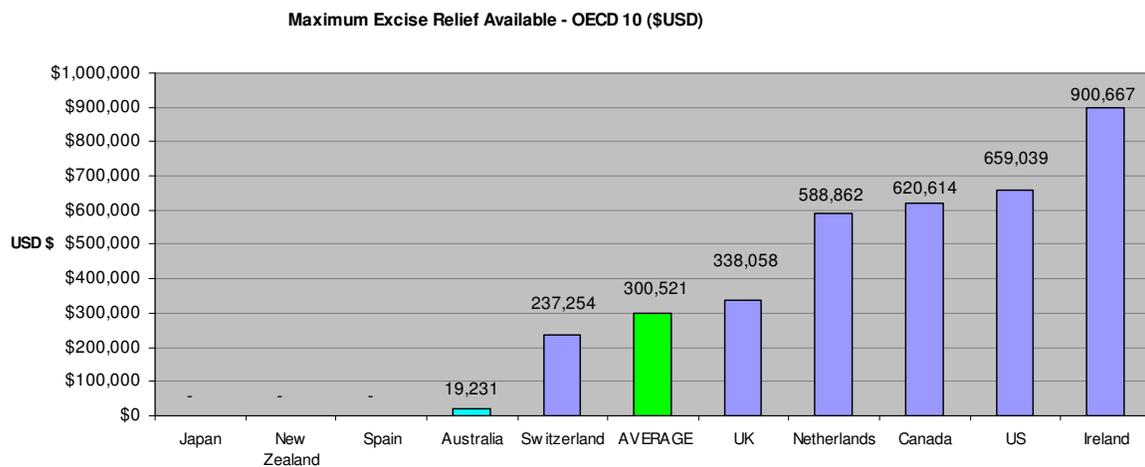
It is important to understand that the IBIS World Industry Report on Beer 2012¹⁶ states that it is internationally recognised that small breweries only achieve sufficient equivalent economies of scale compared to the major breweries when they reach 50 million litres of beer per annum (equates to 500,000 hectolitres).

The Australian Government says that it strives to maintain parity with OECD countries. However, these charts highlight the fact that Australia’s definition or classification of small brewery is not in line with OECD countries.

MAXIMUM EXCISE REDUCTION AVAILABLE TO COUNTRIES

Some OECD countries offer reduced excise rates for incremental production volumes up to an agreed annual production threshold (in hectolitres) at which point the full benchmark excise tax rate applies. ARCBA has calculated the maximum amount of excise tax relief available to breweries within different OECD countries in the graphs below.

Chart 5



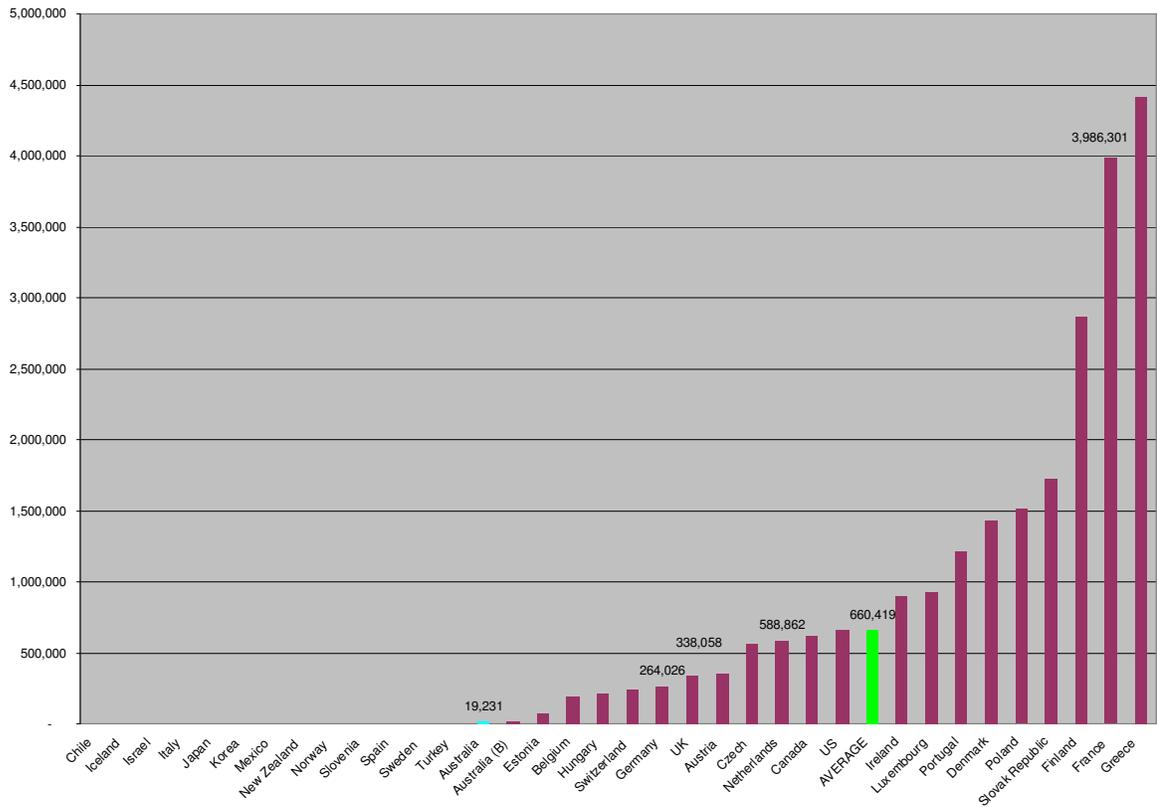
The OECD 10 graph shows that Australian breweries receive the lowest level of taxation relief at \$US19,231 whereas American ‘small breweries’ currently receive \$US659,038 in reduced excise tax, the UK receives \$US338,058 in excise reduction and the average of all OECD 10 countries is \$US300,521. This means that on average, other OECD breweries receive 15 times more excise tax relief than Australian breweries.

The OECD 10 average of \$US300,521 when converted using Australia’s Purchasing Power Parity rate OF 1.56 is equivalent to \$AUD468,391 reduced tax for small and independent breweries.

¹⁶ IBISWorld Industry Report C2182 Beer and Malt Manufacturing in Australia, May 2012

Chart 6

Maximum Excise Reduction Available (\$USD) - OECD 33



Australian breweries receive the lowest level of taxation relief at \$US19,231 when compared with the OECD 33 countries that provide relief and the average of all OECD 33 countries is \$US660,419. This means that on average, other OECD breweries receive 53 times more excise tax relief than Australian breweries.

The OECD 33 average of \$ US660,419 converted using Australia’s Purchasing Power Parity rate of 1.56 is equivalent to \$A1,030,253 reduced tax for small and independent breweries.

Note that Canada and US define a small brewery as 300,000 HL and 2,347,000 HL respectively. However, the maximum excise relief is capped at 75,000HL and 70,410HL for each country. Once a brewery exceeds the small brewery definition volume, they do not receive the excise relief. The calculations in Charts 5 & 6 are based on the production thresholds as per current US excise laws.

The highest country is Greece receiving \$US4.4 million in tax relief which is 229 times the level of Australia’s excise rebate. Ireland receives \$US900,667 in excise relief which is 46 times the amount available to Australian small independent breweries.

Australia’s excise rebate is the lowest level for any OECD country that provides excise relief.

EFFECTIVE TAXATION RATES FOR OECD COUNTRIES

When calculating and analysing the excise taxation burden on beer in Australia compared to other OECD countries, it is disturbing to note just how heavily Australian beer is taxed.

For the purpose of this exercise, we assumed an annual production volume of 200,000 hectolitres and calculated the amount of excise tax that would be payable in US dollars. We have adopted 200,000 hectolitres as our benchmark as 11 OECD countries use this production threshold to define a small brewery.

We have then compared Australia's taxation position with the group of 10 and 33 OECD countries - Refer to both charts 7 and 8 below for the results.

Chart 7

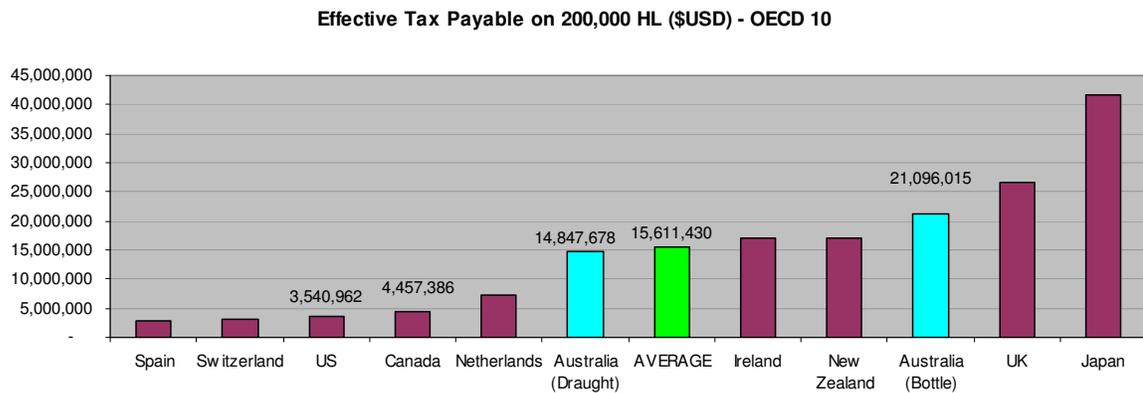
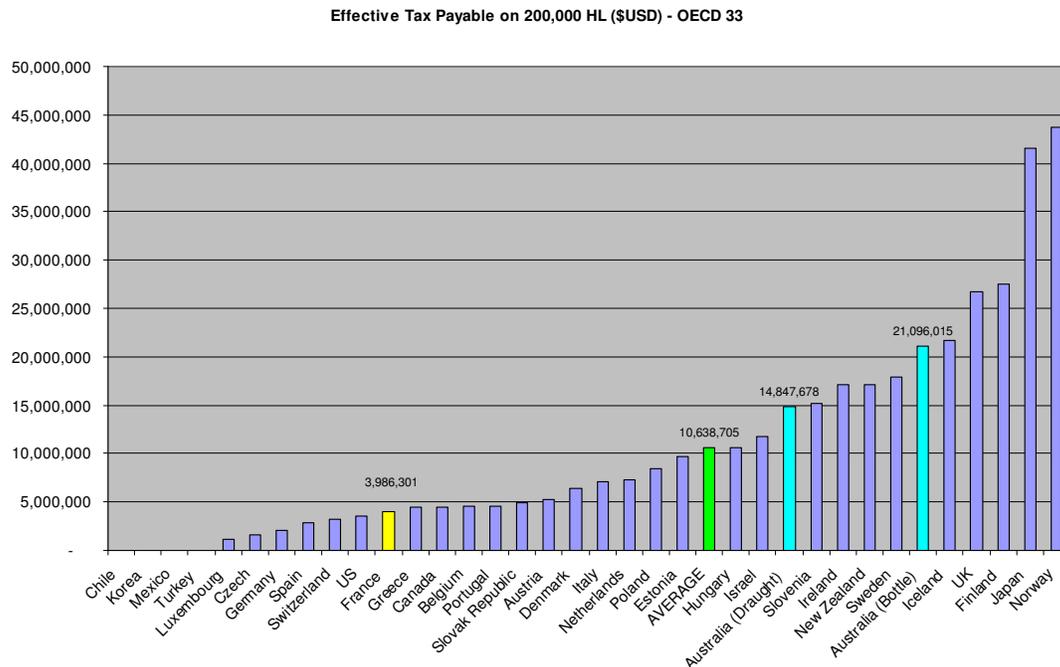


Chart 8



Note: Australia is split between Draught and Bottle

OECD 10: Chart 7 shows that Australian draught beer is taxed at \$US14.8m which is comparable to the OECD 10 average of \$15.6m. For the same production volumes, Australian bottled beer is taxed at \$21m which is 1.3 times more than the average.

OECD 33: Chart 8 shows that Australian beer (draught and bottled) is taxed more than the OECD 33 average of \$10.6m. For the same production volumes, Australian excise rates are 1.3 and 2 times the average for draught and bottled beer respectively.

Australia is taxed very heavily when compared to America. This is illustrated in the following table:

Country	Effective Tax Paid	Disparity
US	\$3.5m	-
Australia - Draught	\$14.8m	5 times rate of USA
Australia - Bottled	\$21.1m	7 times rate of USA

In both charts above, an American brewery pays \$US3.5 million which represents 30% of the OECD 10 average and 20% of the OECD 33 average. Australia pays 5 to 7 times the amount of tax for draught and bottled beer compared to US. This impacts significantly on Australian small breweries as we compete directly with US imported beer for shelf space and taps.

Key Summary Data from Table A:

OECD Countries	Average Maximum Excise Relief Available \$US	Average Effective Tax Payable on 200,000 HL \$US
Australia (Draught)	19,231	14,847,678
Australia (Bottle)	19,231	21,096,015
Average (OECD 10)	300,521	15,611,430
Average (OECD 33)	660,419	10,638,705

Converted to Australian Dollars

To understand these metrics in Australian terms, the data is converted from USD dollars using the OECD Purchasing Power Parity metric to Australian dollars at the rate of 1.56, and the ranges are:

OECD DATA	Average Maximum Excise Relief Available \$A	Average Effective Tax Payable on 200,000 HL \$A
Australia (Draught)	30,000	23,162,377
Australia (Bottle)	30,000	32,909,783
Average (OECD 10)	468,812	24,353,830
Average (OECD 33)	1,030,253	16,596,379

It is important to note that the data shown above is a snapshot in time and is the current situation in 2012-13 which clearly indicates the considerable disparity between Australia and OECD countries. However, what is not explained above is the fact that many OECD countries have had considerable support by way of reduced excise taxation by their

governments for many decades now. These overseas breweries have had the benefit of many years of tax and financial support that has been severely lacking for Australian brewers.

It is in this context that the Australian Government needs to provide urgent and immediate excise relief to Australian owned, small real craft breweries.

'Rebate' versus 'Reduced Tax Rate'

In addition to the high excise tax burden imposed, Australian small breweries also incur additional compliance, administrative and reporting responsibilities and costs as Australia provides excise relief by way of an excise tax rebate. Whereas, all other OECD countries implement excise relief in the form of a reduced excise tax rate.

In an ideal world, the Australian excise rebate should be changed to a reduced tax rate structure. As a reduced tax rate, the excise relief allows small breweries to compete on a fairer playing field against international imported beer and foreign-owned multi-national beers produced in Australia.

'Small' and 'Independent'

It is important to understand how other countries define 'small' and 'independent' to have a thorough understanding of how Australia compares to its overseas counterparts.

The European Commission /Legislation/Council Directive 92/83/EEC of 19 October 1992 on the harmonization of the structures of excise duties on alcohol and alcoholic beverages clearly defines what they believe the definition for 'SMALL' and 'INDEPENDENT' should be and that reduced rates of excise duty should not apply above 200,000 hectolitres of beer per year.

"Article 4

1. Member States may apply reduced rates of duty, which may be differentiated in accordance with the annual production of the breweries concerned, to beer brewed by independent small breweries within the following limits:

- the reduced rates shall not be applied to undertakings producing more than 200 000 hl of beer per year,

- the reduced rates, which may fall below the minimum rate, shall not be set more than 50 % below the standard national rate of excise duty.

2. For the purposes of the reduced rates the term 'independent small brewery' shall mean a brewery which is legally and economically independent of any other brewery, which uses premises situated physically apart from those of any other brewery and does not operate under licence. However, where two or more small breweries cooperate, and their combined annual production does not exceed 200 000 hl, those breweries may be treated as a single independent small brewery.

3. Member States shall ensure that any reduced rates they may introduce apply equally to beer delivered into their territory from independent small breweries situated in other Member States. In particular they shall ensure that no individual delivery from another Member States ever bears more duty than its exact national equivalent."¹⁷

The EU clearly distinguishes between the legal and economic independence of breweries and whether breweries operate under licence. It is ensuring that only the appropriate entities get the benefits of any excise relief available consistent with the true intent of the legislation.

¹⁷ European Commission /Legislation/Council Directive 92/83/EEC of 19 October 1992 on the harmonization of the structures of excise duties on alcohol and alcoholic beverages

PART 3 - WHY AUSTRALIA NEEDS URGENT AND IMMEDIATE EXCISE RELIEF

Several countries around the world have passed legislation or are presently lobbying their governments to increase excise relief for small breweries and to increase the threshold levels for small breweries. For example, the following countries have passed or are lobbying for:

Country	Existing Threshold (HL)	Proposed or Enacted Threshold (HL)
UK	60,000	200,000
France	10,000*	200,000*
USA	2,347,000	7,041,000

*The increase to 200,000 HL was legislated by the French Government in 2012 after 1 January 2012 which is the date of the OECD data used in the preparation of this report.

UK: The Local Beer British Brewing Report 2012 – Published by SIBA, the Society of Independent Brewers is calling for the UK Government to increase small breweries relief by increasing the small brewery thresholds from 60,000 to 200,000 hectolitres to bring them into line with the European Union countries.

FRANCE: France enacted legislation on 1 July 2012 which extended their excise reduction threshold of 50% from 10,000 HL to 200,000 HL¹⁸ to bring their excise taxation system in line with countries within the European Union.¹⁹ This change represents a 20 fold increase in one year. France thereby increased the maximum excise relief available to breweries from \$US886,398 to \$US3,972,413 (which is 206 times Australia’s rebate amount). **France increased their excise tax on all beer of 162% in order to pass on the \$US3.9 million relief to small independent breweries.**

USA: In America, there is currently proposed legislation (The Small Brew Act)²⁰ in front of the US Senate which would create a new excise tax rate structure that reflects the current environment for the craft brewing industry. The rate for the smallest brewers and brewpubs would be reduced from \$US7.00 to \$US3.50 on the first 60,000 barrels. For production between 60,001 and 2 million barrels²¹ the excise rate would be reduced from \$US18 to \$US16 per barrel. Any brewer that exceeds 2 million barrels would begin paying the full \$US18 rate. Breweries with an annual production of 6 million barrels²² (equivalent to 7,041,000 HL) or less would qualify for these tax rates.²³ This represents a three fold increase to 6 million barrels up from 2 million barrel threshold. This represents an increase in the US threshold from 2,347,000 HL to 7,041,000 HL (expressed in hectolitres, rather than barrels).

¹⁸ Excise Duties Table Part 1 – Alcoholic Beverages by European Commission Directorate-General Taxation & Customs Union “shows the situation as at 1 January 2013” This was legislated after the 1 January 2012 which is when the data used in this report was current.

¹⁹ Excise Duties Table Part 1 – Alcoholic Beverages by European Commission Directorate-General Taxation & Customs Union “shows the situation as at 1 January 2013” This was legislated after the 1 January 2012 which is the date of the data used in this report.

²⁰ HR 494 Small Brew Bill enacted by US House of Representatives on 5 February 2013

²¹ 1 barrel (used in US is 117.35 litres of beer) = 2.34 x 50 litres kegs (used in Australia).

²² United States of America: Reduced excise taxes for domestic but not imported micro-brewery beer *Measure #2156* | Published 12 Mar 2011

²³ <http://www.brewersassociation.org/pages/media/press-releases/show?title=small-brew.....>

When this Bill passes the US Senate, it will have significant impact on the Australian beer market as imported product will be cheaper and local producers will not be able to compete on price.

GERMANY: It is worth noting that Germany has not had an increase to its rate of excise for over 30 years. Yet, in *The Local Beer - British Brewing Report 2012* – Published by SIBA, the Society of Independent Brewers it is quoted that Germany represents 26% of all European beer sold and yet it only contributes 5% of EU duty paid.²⁴

WORLD FORECAST: Global beer consumption is predicted to top 2 billion hectolitres by 2013, according to Canadean's latest *Global Beer Trends Report*.²⁵ Although beer consumption has been affected by the global economic crisis, at a global level growth is still relatively robust, with Canadean predicting an average growth rate of 2.8% between 2009 and 2015.²⁶ However, this global headline figure masks significant differences at a regional level.

INSIGHTS OF THE USA BEER MARKET

A brief overview of the USA excise tax system is included in this paper to provide valuable insights as the country has clearly announced that developing and growing its beer export market is a key priority. It is against this background that Australian small and independent breweries are currently finding themselves and will find themselves competing against more and more in coming months and years.

In the US,

- The definition of small breweries in the US is currently 2 million barrels (234 million litres).²⁷ The American Breweries Association (ABA) is lobbying to raise this ceiling to 6 million barrels (704 million litres). This is 14,080 times the size of Australia's ceiling of 500 hectolitres (or 50,000 litres).
- The American small brewer tax rate was established in 1976. Therefore US breweries have had a beneficial tax regime for over 30 years. In that time, the annual production of America's largest brewery increased from about 45 million to 107 million barrels.
- Under the current excise regime, a small US brewer is eligible to pay \$7.00 federal excise tax per barrel on the first 60,000 barrels produced each year. Once production exceeds 60,000 barrels, a small brewer must pay the same \$18 per barrel excise tax rate that the largest brewer pays with production at over 100 million.
- The American Brewers Association (ABA) is lobbying hard to reduce the rate from \$7.00 to \$3.50 per barrel. They say this would provide approximately \$15.5 million per year to help strengthen their nation's smallest brewers and support their efforts to maintain and generate jobs.
- ABA is also lobbying to reduce the tax rate from \$18 to \$16 per barrel on beer production above 60,000 barrels up to 2 million barrels. They argue this would provide small brewers an additional \$26.2 million per year. This would be used to support significant long-term investments, encourage pursuit of export opportunities and create jobs by growing their businesses on a regional or national scale.

²⁴ *Local Beer - British Brewing Report 2012* – Published by SIBA, the Society of Independent Brewers

²⁵ Canadeans *Global Beer Trends Report 2012*, www.canadean.com

²⁶ Canadeans *Global Beer Trends Report 2012*, www.canadean.com

²⁷ 1 US barrel = 117.35 litres of beer = 2.34 x 50 litres kegs (used in Australia).

- **Global Trade Alert – The Brewers Employment & Excise Relief Act would extend this proposed relief only to domestic producers and not to imported beer.** ²⁸

Why is urgent and immediate relief needed in Australia?

Recent Global Trade Alerts highlight significant changes enacted or proposed to the taxation of beer in overseas countries. All of these changes make it increasingly hard for small breweries to compete fairly and equitably within our domestic market. Australia needs to increase the level of excise tax relief to ensure parity with OECD as a matter of urgency.

AN OVERVIEW OF THE AUSTRALIAN BEER INDUSTRY

- Australian breweries produced over 48 million litres of alcohol (LALs) in beer in the financial year ending 2011-12²⁹. This generated over \$1.9 billion dollars in excise revenue for the Federal Government in that year as reported by the Australian Tax Office.
- Australia has one of the world's highest consumption of beer per capita and over 92% of all beer produced locally is consumed domestically. However, **approximately 5% of all beer sold in Australia is '100% Australian owned'**. This situation is primarily due to the heavily concentrated market dominated by two multinational conglomerates and the success of many licensing agreements with foreign beer companies.
- Australia has one of the most heavily concentrated beer markets in the world. Two major foreign owned players control over 92% of the market. Fosters (SABMiller) and Lion Nathan (Kirin) own over 92% of beer brewed in Australia. These big brewers are currently producing per annum approximately 1 billion litres of beer (Fosters) and 840 million litres of beer (Lion Nathan).
- Australia currently imports about 4% of all beer sold and we export a relatively low level of beer at 8.5% compared to other countries around the world.
- Beer volumes produced in Australia have decreased from 53 million litres of alcohol in 2008-09³⁰ to 48 million litres of alcohol in 2011-12³¹. One factor that may contribute to the decline is the push by breweries to market and sell ciders which are classified as wine and therefore have lower taxes and higher profit margin and the extremely small real craft beer market compared to Europe and USA.
- In Australia, real craft breweries, that are small and independent, only account for 0.25% of all beer sold in Australia, yet there are currently more than 150, and growing, small breweries located throughout Australia and many in regional areas. These small breweries are often family owned and start-up manufacturing businesses supporting their local community and area.

²⁸ <http://www.globaltradealert.org/measure/united-states-america-reduced-excise-taxes-domestic-not-imported-micro-brewery-beer>

²⁹ Excise Clearance Beer Data as published by ATO on www.ato.gov.au

³⁰ Excise Clearance Beer Data as published by ATO on www.ato.gov.au

³¹ Excise Clearance Beer Data as published by ATO on www.ato.gov.au

WHY THE BEER LANDSCAPE IN USA DIFFERS TO AUSTRALIA

It is important to understand the beer landscape and how the craft beer segment has grown in America when looking at the need for excise relief for Australia.

In 1976 in the USA there were 30 small breweries, nowadays there are nearly 2,000 small breweries³². In Australia, there are over 150 Australian owned small independent breweries, whereas there are over 2,000 wine producers.

The legislation before the US Senate recognises the investments already made by America's new brewing entrepreneurs, and promises to help further innovation and product diversity. Consumer demand for the bold and innovative beers brewed by America's small brewers have grown significantly in recent years. However, it is a well known fact that because of difference in economies of scale, small brewers have higher costs for production, raw materials, packaging and market entry compared to larger, well-established multi-national corporations.

The impact of government excise tax relief and government funding in grants to small brewers is clearly evidenced by the US statistics below of the craft brewing segment in America. These figures show a strong and growing craft beer segment. As distinct to Australia, where there has been negligible relief given to small breweries and as a result the small breweries represent less than 0.25% of the total Australian beer market.

US Craft Brewing Facts ³³

- *Craft brewers currently provide an estimated 103,585 jobs in the U.S.*
- *Growth of the craft brewing industry in 2011 was 13% by volume and 15% by dollars*
- *Craft brewers sold an estimated 11,468,152 barrels³⁴ of beer in 2011, up from 10,133,571 in 2010.*
- *Overall, total US beer sales were 200 billion barrels in 2010*
- *The craft brewing sales share in 2011 was 5.7% by volume and 9.1% by dollars.*
- *Craft brewer retail dollar value in 2011 was an estimated \$8.7 billion, up from \$7.6 billion in 2010.*

A key metric that demonstrates the sheer size of the US market and the economies of scale that can be achieved is by simply looking at the total beer production of the two countries. Overall US beer sales in volume was 199,937,239 barrels in 2010 ³⁵ which is 23,460,635,624 litres (or 23,460 million) litres of beer, whereas, Australia's volume is approximately 1,786 million litres in 2010-11.³⁶ The American beer market is 13 times larger than Australia's, yet the American Government gives 34 times more excise relief which is set to increase to 246 times more excise relief than the Australian Government. America's ceiling defining small and independent is set to increase to 14,080 times the size of Australia's ceiling.

³² <http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts>

³³ <http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts>

³⁴ 1 US barrel equals 117.35 litres of beer which is 2.34 x 50 litres kegs

³⁵ <http://www.brewersassociation.org/pages/business-tools/craft-brewing-statistics/facts>

³⁶ <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/4307.0.55.001main+features42010-11>

So, why is the Australia beer scene so different to USA?

"My feeling is that it has to do with the politics of having or not having small business friendly governments as well as excise tax differentials. Favourable differentials nurture small business success and sustainability. In a world of gigantic-huge-big it's extraordinarily difficult to be successful and sustainable small local any-kind-of-business. It takes a lot of sweat equity, helpful politics, reasonable regulations and consumer awareness"³⁷ *Charlie Papazian, Beer Examiner & Chairman of Brewers Association of USA*

"It is the craft brewers who develop diversity in beer flavour and choice".
³⁸ *Charlie Papazian, Beer Examiner & Chairman of Brewers Association of USA*

AUSTRALIA'S BIG TWO BREWERIES ARE AMONG THE WORLD'S MOST PROFITABLE

The two large breweries in Australia (Lion Nathan and Fosters) are both overseas owned by massive conglomerates, so large in fact that they dwarf the Australian Government itself. These two breweries have had a duopoly in the Australian market for decades now, as evidenced by their profitability in local and international terms. Kirin Holdings is owned by Mitsubishi Group who has an annual revenue of US\$284 billion, which is bigger than the Australian Federal Government of \$A221 billion.

It is a well known fact that the two large breweries in Australia are some of the most profitable in the world as confirmed by the companies themselves. These big players are very profitable because they operate in a market with very little real or effective competition, and have done so for decades. The big breweries can achieve massive economies of scale that the small breweries cannot even begin to compete against. This is evidenced by the strong profit results recorded by Fosters, being one of the big two major breweries:

- Fosters: On 21 September 2011, Bloomberg News stated that ***Fosters was "one of the world's most profitable brewing companies"***. "Foster's beer operating profit margin or earnings before interest and tax as a proportion of sales, was 36 percent last year, higher than the 30.8 percent at Anheuser Busch InBev NV, the world's biggest brewer in the year ended December, and the 23.5 percent of SABMiller in the year ended March, according to data compiled by Bloomberg."
- Fosters: On 8 Dec 2011, The Australian newspaper quoted SABMillers executive Mr Ari Mervis as saying ***"Fosters would account for less than 10 per cent of SABMillers Asia Pacific beer sales by volume but would contribute more than 80 per cent of earnings generated in the region"***. In SABMillers annual report they stated that the Asia Pacific region had the only real increase in growth, and the region substantially supported their profit earnings.

This means that Fosters achieves 6% more profit to the bottom line than any other major brewery in the world.

In addition, the SABMiller CEO has recently publicly stated that they will be aiming for a 5% to 7% improvement in profitability due to cost control and efficiencies. This will mean that Fosters (now SABMiller) will look to achieve 12% more in profit (6% plus additional 6%) in Australia than any other major brewery in the world.

³⁷ <http://www.examiner.com/article/is-Australian-beer-drinkers-future-bleak> July 12, 2012

³⁸ <http://www.examiner.com/article/is-Australian-beer-drinkers-future-bleak> July 12, 2012

SMALL INDEPENDENT BREWERIES NEED FAIR TRADE & PARITY IN THEIR OWN BACKYARD AND WITH THE REST OF THE WORLD

We believe that Australian small breweries need to operate in an environment that is competitive and a fair playing field relative to the rest of the world and also to the wine industry.

At present, Australia is one of the only beer producing countries in the world to deny its small breweries incentives for growth. Australia is completely out of step with the rest of the world.

It is imperative in today's competitive global landscape that the Australian excise tax system for beer is compatible with Australia's most important trading partners and with those particular countries that Australian beers are competing against.

Australian small breweries are operating in a very highly taxed environment relative to overseas breweries.

The Government cannot sit back and let international small breweries have a competitive advantage over Australian small breweries. It is time for change and for all political parties to champion small microbreweries and the Australian beers of our culture.

INTERNATIONAL BREWERY COMPARISON

It is important to realise that Australia's small breweries are competing against the big two brewers in Australia who are multinational brewing conglomerates and we are increasingly competing against major international beer companies and brands imported or brewed under licence in Australia.

These international companies have massive economies of scale and operate under very different cost structures in their home countries. To illustrate this point more clearly, we have calculated the cost to produce a carton of beer and a 50 litre keg of draught beer for small brewers in Australia, Czech Republic, France, Thailand, USA and a large global brewery.

We looked at some of the key costs in the brewing process for small producers – wages, electricity, rent and malt prices. We have made assumptions but the calculations serve to illustrate the cost and pricing structures that small producers are up against when competing with large global breweries.

Wages	\$US	% of Aus
Australian Craft	\$ 16.45	100%
Czech Republic	\$ 2.61	16%
France	\$ 13.10	80%
Thailand	\$ 1.48	9%
USA	\$ 7.25	44%

Minimum wage data sourced Wages & Labour costs from EuroStat, European Union website and crosschecked with data in Wikipedia

Electricity per kw	\$US	% of AUS
Australian Craft	\$ 0.22	100%
Czech Republic	\$ 0.12	56%
France	\$ 0.19	88%
Thailand	\$ 0.04	20%
USA	\$ 0.08	36%

Electricity prices per kilowatt sourced EuroStat, European Union website and crosschecked with Wikipedia

Property \$	\$A	% of AUS
Australian Craft	\$ 8,333	100%
Czech Republic	\$ 3,125	38%
France	\$ 4,938	59%
Thailand	\$ 4,333	52%
USA	\$ 2,195	26%

Property rents sourced within 70km of capital cities CBD per 1,000 square metres per month

Malt \$	\$A	% of AUS
Australian Craft	\$ 1,000	100%
Czech Republic	\$ 600	60%
France	\$ 600	60%
Thailand	\$ 1,000	100%
USA	\$ 750	75%

Malt prices per tonne are sourced from trade supplier websites

We then applied the average relative cost of wages, electricity, rent and malt to calculate an approximate price for sale, assuming consistent overhead allowances, excise tax, margins, etc.

<u>Bottled Beer (carton)</u>	Price \$A
Australian Real Craft	58.31
Czech Republic	34.98
France	45.90
Thailand	31.91
USA	35.78
Large Global Brewery	27.66
<u>Draught Beer (kegs)</u>	Price \$A
Australian Real Craft	191.46
Czech Republic	117.95
France	152.29
Thailand	127.46
USA	127.83
Large Global Brewery	97.94

WHY AUSTRALIAN SMALL BREWERIES NEED GREATER EXCISE RELIEF

The large disparity between Australia and with the rest of the OECD for beer is obvious when you look at key data for Australia's main beer competitor nations within the OECD (both from an import and export perspective).

Country	Amount of Excise Paid for 4.8 Abv 1HL (\$USD)	Classification of Small Brewery (HL)	Maximum Excise Reduction available (\$USD)	Effective excise tax paid on 200,000 HL (\$USD)
Australia -Bottle	\$105.58	500	\$19,231	\$21.1m
Australia -Draught	\$74.32	500	\$19,231	\$14.8m
US	\$21.00	2,347,000	\$659,039	\$3.5m
Germany	\$11.85	200,000	\$264,026	\$2.1m
UK	\$135.22	60,000	\$338,058	\$26.7m
France	\$15,23	200,000	\$3,986,301	\$3.9m

The key points to note from this table above which highlight the inequality of the Australian excise taxation system for beer are as follows:

- Australia's standard nominal excise tax rate is 3 to 5 times higher than America
- The Australian Government's definition of a small brewery is 500HL whereas the US is currently 2,347,000HL. But legislation before the US Federal Government is to increase this to 7,041,000.
- Australian brewers receive a reduced tax threshold of \$US19,231 whereas US brewers currently receive a reduced tax threshold of \$US659,039. But legislation is before the US Federal Government to increase this to \$US5.3 million.³⁹
- Australia is the only country in the OECD that has a differential excise rate for bottled beer versus draught beer.
- France passed legislation in 2012 to increase their maximum excise reduction available to \$US3.9m.⁴⁰ This legislation wasn't enacted on 1 January 2012 which is the date for all data used elsewhere within this report. However, as it was in force at the time of preparing this White Paper, we have included it.
- Germany is taxed at one tenth the amount of Australia

The Local Beer British Brewing Report 2012 – Published by SIBA, the Society of Independent Brewers articulates the reason why excise relief is critical for small breweries in the following extract from this report:

INVESTMENT: A PRICE PAID. Small Breweries' Relief was introduced ten years ago, in June 2002, by the (UK) Labour Government. By allowing a tax break at low levels of production, SBR legislation recognised diseconomies of scale for microbrewing enterprises and sought to foster an economic environment in which they could establish commercial sustainability = A SUSTAINABLE DIVIDEND EARNED

"...small breweries' relief constitutes an important step in delivering...fairer balance – recognising the particularly challenging conditions in which our small breweries operate and the difficulties they face in bringing their goods to market..." John Healey, Economic Secretary to the Treasury, July 2003 UK

The craft brewing industry and craft beer movement as we know it presently in the United States began in the early 1980s. In the ensuing years small brewers in America

³⁹ United States of America: Reduced excise taxes for domestic but not imported micro-brewery beer *Measure #2156 | Published 12 Mar 2011*

⁴⁰ Excise Duties Table Part 1 – Alcoholic Beverages by European Commission Directorate-General Taxation & Customs Union "shows the situation as at 1 January 2013"

have been supported and stimulated by subsidized excise rates and now represent more than 5% of beer production by volume in that country. By comparison, Australia licensed its first small brewery in 1981, yet our small brewers have continued to struggle for survival in a climate of high excise rates and represent just 0.25% of the beer produced in this country.

ADDITIONAL GOVERNMENT SUPPORT AND FUNDING

The Australian Government gives little to no government funding or grants to small breweries which is in sharp contrast to USA and Canada for example. In the USA, the American Brewers Association has had funding support since 2004. In 2010, they received \$US 462,555 from two USDA programs to promote the export of American craft beer for a Market Access Program and Emerging Markets Program.

The USA has explicitly stated that one of their key objectives is to expand into international beer markets. An example of this is the fact that the USA Brewers Association Export Development Program is funding all US beer entries into the Australian International Beer Awards (AIBA) 2013.

"The Brewers Association Export Development Program is participating in the 2013 Australian International Beer Awards." "The BA is prepared to cover the entry cost and air shipping from the Brewers Association to Australia for up to three brands (bottles and cans only) per brewery for Export Development Program subscribers. There is no limit on the number of submissions per brewery but each additional brand is charged a separate fee."⁴¹

In Canada, breweries get funding for generic international development efforts, financial and human resource assistance with development of national standards, research into developing new varieties of grains, new processes, tests and procedures to improve production.

Small Australian real craft breweries to date have received no or negligible government funding or grants.

We are seeking government support and funding to build a stronger and sustainable real craft beer industry by extending Australia's craft beer presence and reputation globally, and by providing foundation data and market insights to Australian brewers that deliver a competitive advantage.

THE BENEFITS OF GIVING SMALL BREWERIES EXCISE RELIEF

In Australia, real craft breweries only account for 0.25% of all beer sold in Australia, yet there are more than 150 small breweries located throughout Australia and many in regional areas.

To understand the benefits of providing excise relief and funding to small breweries, it helps to look at recent experiences in USA, Europe and UK as they have governments who understand the importance of excise relief for the beer industry.

USA: In 2011 in the State of California, USA, *"despite a difficult economy, the craft brewing industry is thriving; creating jobs, supporting communities and generating revenue for the state of California. With over 270 independently owned craft breweries spread through out our state, each brewery is an economic*

⁴¹ US Brewers Association Forum - From: BA Forum [mailto:forum@brewersassociation.org] Sent: Wednesday, 30 January 2013 7:08 AM To: BA Forum Subject: Brewers Association Forum Vol. 19-0129.

*engine, creating good jobs, attracting tourism and supporting local economies. Craft brewing is a labour intensive and proudly; inefficient'. Although craft brewers produce only 5% of the beer consumed in the US, we employ half of all the brewery workers. That's a lot of jobs!"*⁴²

USA: Key USA Craft Brewing Data highlights the business case for excise relief for small breweries.

This data has been taken directly from the American Brewers Association website which provides this information to the public and all figures are in USD.

1. Craft brewers currently provide an estimated 103,585 jobs in the U.S., including serving staff in brewpubs.
2. Growth of the craft brewing industry in 2011 was 13% by volume and 15% by dollars compared to growth in 2010 of 12% by volume and 15% by dollars.
3. Craft brewers sold an estimated 11,468,152 barrels* of beer in 2011, up from 10,133,571 in 2010. Note: 1 barrel = 117.35 litres of beer.
4. The craft brewing sales share in 2011 was 5.7% by volume and 9.1% by dollars.
5. There were approx 250 brewery openings in 2011 (174 microbreweries and 76 brewpubs) and 37 brewery closings (12 microbreweries and 25 brewpubs).
6. 1,940 craft breweries operated for some or all of 2011, comprised of 1,063 brewpubs, 789 microbreweries and 88 regional craft breweries.

A Harvard University report dated 9 April 2012 on Economic Impact of Small Brew Act (H.R. 1236) calculates that every dollar lost in excise revenue will generate \$10.22 in economic activity.

The above data clearly shows how small brewers can in fact thrive and the total market can participate in growth when given excise relief.

EUROPE: In Europe, the emphasis on local beer and the move towards a progressive system of beer tax "will help small breweries, often based in rural or economically marginal areas, by allowing them to increase investment and improve cash flow, one of the biggest threats to small businesses. In the long run it will also help create local jobs, as it reduces a major barrier to market entry. This will also promote choice and diversity for consumers".⁴³

UK: There were 767 real ale breweries⁴⁴ in the UK, many of which are based in rural areas and offer an incredibly diverse range of beer and a large variety of consumer choice. This number has more than doubled since the UK introduced small breweries relief in 2002, at which time there were only 350 real ale breweries.

Giving small breweries 'the confidence to invest in their future' was cited by the UK Government at the time as a foremost reason for the introduction of Small Breweries Relief. That this has been achieved is apparent, not only in the growth of the numbers of small brewery businesses, but in their operating experiences once established. Many companies that have built success are barely recognisable from their humblest 'micro' origins. Local Beer - British Brewing Report 2012 - Published by SIBA, the Society of Independent Brewers

The benefits of an increase in the excise rebate for Australian brewers will encourage fairer competition between domestically produced and imported beer. The current tax system does not promote or offer Australian small breweries the level of support that our overseas counterparts are receiving currently and in some cases, have received for over 30 years.

⁴² www.californiacraftbeer.com, 2011

⁴³ Local Beer - British Brewing Report 2012 - Published by SIBA, the Society of Independent Brewers

⁴⁴ Ed. Roger Protz, Good Beer Guide 2011

SMALL BREWERY RELIEF GROWS OVERALL TAX REVENUE BY 'VALUE-ADD'

Another contribution of the brewing sector is the value-add directly, and that created by the supplying, retail and hospitality sectors. The value-add is an important measure as the EU levy a tax on it (VAT). In the EU, the Brewing sector account for 21% ⁴⁵ of the total Value-Add of the EU beer market. Therefore, the split of the EU Total Beer Value-Add as a percentage is:

Brewing	21%
Supply hospitality and retail	79%
Total Beer Value-Add	100%

The approximate excise tax revenue (which effectively represents 30% of beer revenues) would then be approximately 6% of value-add in Australia.

If the Australian Government was to increase the amount of the 60% excise tax rebate to Australian small independent breweries, this would translate to a 60% rebate of 6% excise value-add resulting in a 3.6% loss of excise tax revenue.

However, the Government gains Goods & Services Tax (GST) earned on the 100% value-add from small brewery growth. The incremental GST revenue is therefore 10% of the 100% value-add which represents 10% additional GST revenue.

Also, in the value-add brewing, supply, hospitality and retail sectors approximately 30% of costs of each sector represents wages and employment related costs. All value-add activity indirectly results in a 30% increase in employment costs and assuming a 30% rate of personal income taxation this results in a (30% x 30%) or 9% increase in personal income taxes. Therefore, the Government will earn an additional 9% in personal income taxes.

Giving small independent breweries increased excise reduction of 60%, will increase value-add and generate a 3.6% loss in excise tax revenues but this loss is offset by a gain of 10% in GST revenues and additional 9% in personal income taxes. The net effect of the excise relief is a net gain of 15.4% in government revenues.

For illustrative purposes, applying the value-add metrics above, if the Australian Government provides small real craft breweries with a reduction of \$A1 million in excise tax this will result in economic growth of 27.7 times and a grossed up net gain of \$4.28 million in GST and personal income taxes.

In addition to the tax revenue above, the Government will also receive additional company tax, environmental tax and superannuation contributions to Australian citizens. **With the mining sector showing signs of slowing growth, it is important for the government to find new industries that will stimulate growth and employment and rural opportunities.**

⁴⁵ Source: Calculated from data provided by Ernst & Young calculation (2011) within The Contribution made by Beer for the European Economy, Chapter 3 Value-Added by sector, page 29

CREATION OF JOBS, MANUFACTURING AND TOURISM OPPORTUNITIES

Based on European data, jobs created directly in beer production and delivery represents 6% of the total employment attributed to beer.⁴⁶ For every 1 job created in a physical brewery, there are 15.66 jobs created in the supply, hospitality and retail sector.⁴⁷ All job creation in brewing is a significant employment generation initiative.

Small breweries also offer significant manufacturing opportunities. Therefore, increasing Australia's excise tax relief will have a direct effect on Australian small breweries and improve their profitability, thereby expanding local manufacturing, creating new jobs, developing new and existing tourism opportunities and increasing regional opportunities and character.

At a local and regional level, providing excise relief will allow small businesses to pay wages to the owners and families, allow their businesses to become profitable, and thereby give them the ability to employ more people, invest in capital and support local and regional communities.

SOCIAL RESPONSIBILITY OF SMALL BREWERIES

Craft beer brewed by small independent breweries is consumed by a discerning drinker who is focussed on quality, flavour, aroma, appearance and taste for a complete experience and appreciation of the beer. They seek out innovative and traditional beer styles with variety, creativity, freshness and new, varied and high quality ingredients. A craft beer tends to be priced at a premium and so is not necessarily associated with binge drinking like the mainstream commercial beers. A craft beer drinker drinks for quality, not quantity!

Small craft brewers emphasise beer education and beer appreciation with locals and tourists, alike. Craft beer is typically not associated with binge drinking in the same way as RTD's, low priced/low quality/cask wine and commercial beers. Small craft brewers promote responsible drinking by focusing on quality, not quantity.

Supporting and growing Australian small breweries grows Australian real craft beer which is more socially responsible as small brewers promote responsible drinking and education.

⁴⁶ Source: Ernst & Young calculation (2011) within The Contribution made by Beer for the European Economy, Chapter 4 page 33

⁴⁷ Source: Calculation based on data within the Ernst & Young calculation (2011) within The Contribution made by Beer for the European Economy, chapter 4 Total Employment

PART 4 – COMPARISON BETWEEN WINE AND BEER

When analysing the excise tax burden of the Australian beer industry, it is important to understand how Australia fits within the global beer market but also how it compares to the Australian wine industry as there are considerable similarities between the two markets. Australia's beer industry represents \$5 billion in sales revenues in Australia, whereas the wine industry represents \$4.3 billion in sales revenues.

The wine industry contributes approximately \$720 million in wine equalisation tax per annum whereas beer contributes close to or over \$2,000 million in excise tax per annum. The beer industry is only 27% larger than the wine industry, yet it pays nearly 3 times as much tax. Expressed another way, wine has an effective tax rate of 16.7% whereas beer has a much bigger tax burden at 36.6% but is significantly lower in alcohol.

Comparison of the Australian wine and beer industries:

Approximate size of the wine & beer markets in Australia:

Market Size	WINE \$million ⁴⁸	%	BEER \$million	%
Domestic	\$2,122	49.5%	\$5,130 ⁴⁹	91.1%
Export	\$2,168	50.5%	\$458 ⁵⁰	8.9%
Total	\$4,290	100%	\$5,598	100%
Taxes paid (WET vs Excise)	\$720		\$2,050 ⁵¹	
Effective tax rate	16.7%		36.6%	
Tax Rebates paid by Govt	\$220		\$4	
% Rebate paid from revenues	30.5%		0.02%	

Note that Table E at the end of this report illustrates the government revenues and the relative amounts of rebates given to the wine and beer industries over the past nine years.

Imported product represented \$458m for wine and \$191.60⁵² for beer in 2010 in Australia.

TAXATION SUPPORT AND FUNDING PROVIDED TO THE WINE INDUSTRY

The Australian Government currently provides a high level of taxation support and additional funding to the wine industry. **It is important to note that the Australian Real Craft Brewers Association fully supports the original intention of the WET Producers Rebate to support small wine producers.**

Until the May 2012 Federal Budget, ALL Australian wine producers were entitled to the full \$500,000 WET Rebate. This rebate currently costs the Australian Government approximately \$260 million per year.

⁴⁸ Source: The Australian wine tax regime by the Australian Institute in September 2011 with data sourced from ABS 2010 Australian Wine and Grape Industry

⁴⁹ IBISWorld Industry Report C2182: Beer and Malt Manufacturing in Australia - May 2012, page 42

⁵⁰ IBISWorld Industry Report C2182: Beer and Malt Manufacturing in Australia - May 2012, page 42

⁵¹ Budget Strategy and Outlook, Budget Paper No. 1 2012-13. Table B3: Reconciliation of 2011-12 general government (accrual) revenue

⁵² IBISWorld Industry Report C2182: Beer and Malt Manufacturing in Australia - May 2012, page 42

This meant that small regional wine producers were entitled to receive the same level of support as the multi-national wine conglomerates. Like the beer industry, there are some very big players in the market that the Government is giving the full WET Rebate. In fact, we believe that most of the large multi-national breweries and large retail chains are also receiving the WET Rebate for their ciders and wines such as Lion Nathan, Fosters, James Squire, Matilda Bay, Coles and Woolworths.

When the WET Rebate was introduced in 2004, **the original intention was to support the small wine producers and effectively exempt the majority of Australia's small wine producers**, particularly those with domestic sales. In reality, we have massive multi-national wine conglomerates receiving the whole subsidy from the Australian government, to the same extent as the small regional wine producer employing local people, investing locally and putting all of their profits back into the region.

In the Federal Budget Speech 2004 -05 delivered on 11 May 2004 by the Honourable Treasurer, Peter Costello MP, the following position and purpose of the rebate was stated:

*"And in a measure to support Australia's wine industry, tonight I announce a tax rebate of \$290,000 in Wine Equalisation Tax to every wine producer on an annual basis. This initiative will particularly support wine producers with domestic sales. It will replace cellar door rebates and reduce tax on the industry by \$338 million. **This will effectively exempt 90 per cent of Australia's wine producers from the Wine Equalisation Tax**"⁵³.*

The actual impact of the rebate was outlined in Treasury Executive Minutes in 2010 as follows: "The wine producer rebate was introduced on 1 October 2004 to assist the wine industry. The \$500,000 threshold on a producer's WET liability results in only the largest wine producers being subject to WET. The rebate effectively exempts over \$1.7 million of wine sales per producer from WET each year and results in close to 95 per cent of all wineries effectively paying no WET. Total WET rebates for the 2008-09 financial year came to \$221 million⁵⁴ from a gross revenue of \$950 million."⁵⁵

Again, the impact of the wine producer rebate is estimated to have cost taxpayers \$230 million in 2009-10, while total WET revenue was estimated at \$720 million in that year. Hence, the average WET paid by wine producers is 22.2 per cent rather than the nominal rate of 29 per cent.⁵⁶

It is worth pointing out that Treasury recognise that **95% of all wine producers effectively pay no WET**.

When the Wine Producer Rebate legislation was originally introduced in 2004, there were some significant loopholes which went undetected. However, in 2012, Wine Producer Rebate anti-avoidance amendments were legislated to reduce ongoing distortions within the wine market. These amendments have an estimated revenue impact of \$50m⁵⁷ pa savings to the government. Put another way, \$50 million has been paid out annually from 2004 to 2012 which was not for its intended purposes and that was to support the small wine producers.

This \$50 million per annum saved is 12.5 times the amount of the excise rebate actually given to the entire Australian beer industry of \$4 million in 2011-12.

⁵³ <http://www.budget.gov.au/2004-05/speech/html/speech.html>

⁵⁴ Treasury Executive Minute No 2010/3468 dated 14 December 2010

⁵⁵ Treasury Executive Minute No 2010/3468 dated 14 December 2010

⁵⁶ Australian Government 2011. Tax Expenditure Statement 2009, January

⁵⁷ DSICA Pre-Budget Submission 2011-12 Summary of Recommendations, page 3

Major breweries and retail chains producing ciders and wines in Australia:

In addition to over 95% of wineries not paying any WET, there are many large breweries and retail chains in Australia who are potentially entitled to the full \$500,000 WET rebate on the ciders and wines they produce. The organisations listed below, by way of example, are massive international conglomerates that are entitled to the maximum WET rebate.

Company	Ultimate Holding Entity	Brands owned	Size of Group
Lion Nathan	Kirin Holdings Company, Limited (ultimately controlled and owned by Mitsubishi Keiretsu ⁵⁸)	5 Seeds Mac's Cider (a well known NZ brand ⁵⁹)	Kirin - \$10 billion in revenues per year (Kirin is owned by Mitsubishi – with \$284 billion revenue per year)
Fosters	SABMiller plc	SABMiller Bulmers Strongbow Mercury Cider	SABMiller had \$US 31 billion revenues in 2011-12 ⁶⁰ . It has a \$65 billion market capitalisation.
Montieths Brewing Company ⁶¹	DB Breweries (90% owned by Asia Pacific Breweries ⁶² which is listed on Singapore Exchange). Asia Pacific Breweries is in turn 95.3% ⁶³ owned by Heineken International BV)	Crushed Apple Cider Crushed Pear Cider	Heinenken NV has \$EUR18 ⁶⁴ billion in revenues (\$US22 billion)
James Squire	Malt Shovel Brewery Pty Ltd ⁶⁵ (owned by Lion Nathan, who is owned by Kirin Holdings, owned by Mitsubishi)	Orchard Crushed Apple Cider	Ultimately owned by Kirin Holdings & Mitsubishi (see above)
Matilda Bay	Matilda Bay Brewing Co (owned by SABMiller plc)	Dirty Granny	SABMiller (see above)
Mercury Cider Co.	Fosters (owned by SABMiller plc) - Brewed by CUB)	Mercury Cider Draught	SABMiller (see above)

Major breweries and retail chains that own Wine labels in Australia:

Lion Nathan also owns many wine labels⁶⁶:

- St Hallet (Barossa Valley, SA)
- Knapstein (Clare Valley, SA)

⁵⁸ [http://en.wikipedia.org/wiki/Lion_\(Australasian_company\)](http://en.wikipedia.org/wiki/Lion_(Australasian_company))

⁵⁹ http://en.wikipedia.org/wiki/McCashins_Brewery

⁶⁰ SABMiller plc F'12 full year results 31 March 2012, dated 24 May 2012

⁶¹ <http://en.wikipedia.org/wiki/Montieth's>

⁶² http://en.wikipedia.org/wiki/Asia_Pacific_Breweries

⁶³ http://en.wikipedia.org/wiki/Asia_Pacific_Breweries

⁶⁴ Heinenken NV Annual Report 2012, page

⁶⁵ [http://en.wikipedia.org/wiki/Lion_\(Australasian_company\)](http://en.wikipedia.org/wiki/Lion_(Australasian_company))

⁶⁶ [http://en.wikipedia.org/wiki/Lion_\(Australasian_company\)](http://en.wikipedia.org/wiki/Lion_(Australasian_company))

- Petaluma (Clare Valley, Piccadilly Valley, Mt Barker, Coonawarra, SA)
- Tatachilla (McLaren Vale, SA)
- Preece (Nagambie, Vic)
- Mitchelton (Nagambie, Vic)
- Bridgewater Mill (Adelaide Hills, SA)
- Croser (Piccadilly Valley, SA)
- Smithbrook (Pemberton, WA)
- Stonier (Mornington Peninsula, Vic)

Coles owns the following wine brands⁶⁷:

- Three Kings Estate
- Penola Estate

Woolworths owns the following wine brands⁶⁸:

- Golden Oak
- Sonata Estate

Current Government funding and staffing to the wine industry

Some years ago, the wine industry lobbied the Federal Government for support and funding. As a result the Wine Australia Corporation Act was enacted and Wine Australia was established. This organisation is funded to the tune of \$5 million per annum and employs 38 people.

The objective of the Wine Australia Corporation is to build a more profitable wine industry by extending Australia's fine wine presence and reputation globally, and by providing foundation data and market insights to Australian producers that deliver a competitive advantage.

Wine Australia Corporation deliverables are stated as being:

- Market development – category positioning of Australia to develop awareness of our regions and the diversity of our fine wine offer, extending our presence and reputation globally.
- Knowledge development – support the Australian wine sector's competitiveness through the collection, presentation and dissemination of the global wine sector intelligence.
- Compliance – preservation of Australia's international reputation for quality and integrity.
- Trade – facilitating an increase in Australian wine exports by addressing market access barriers.

For comparative purposes, both the wine and grain industries receive government support such as:

- Wine Australia Corporation is fully funded by Government collected levies⁶⁹ which are then fully appropriated to the corporation as evidenced in Australian Government budget papers. The Wine Australia Corporation received \$4,936,000 in the financial year 2011-12.⁷⁰
- Grains Industry received government funding of \$170 ⁷¹million in 2011-12

Both of these industries (wine and grain) are provided resources by way of government funding and their staffing levels are:

⁶⁷ 'Who makes my wine?' at <http://whomakesmywine.com.au/thelist.html>

⁶⁸ 'Who makes my wine?' at <http://whomakesmywine.com.au/thelist.html>

⁶⁹ Levies imposed by the Primary Industries (Excise) Levies Act 1999 which are collected by the Government and paid to Wine Australia under the Wine Australia Corporation Act 1980.

⁷⁰ Wine Australia Corporation resource statement – Budget Estimates for 2011-12 as at Budget May 2011

⁷¹ Budget Strategy and Outlook, Budget Paper No. 1 2012-13. Table 13: Summary of expenses – agriculture, forestry and fishing

- Wine Australia Corporation (Wine Australia) employed 38⁷² people in 2011-12 whereas Wheat Exports Australia employed 11⁷³ people in 2011-12.
- Wheat Exports Australia's staffing looks like it will be reduced to 5 in 2012-13, whereas Wine Australia Corporation is increasing to 39 for 2012-13.

In comparison, the Australian Beer Industry contributes \$5.5 billion to the Australian economy and contributes \$2⁷⁴ billion in government revenues through excise tax. Yet the beer industry does not receive any funding or staffing from the Australian Government.

The wine industry exports 51% of all wine produced in the country, whereas the beer industry only exports 8.5% of beer produced. This is clearly an enormous opportunity for Australia in the Asian century, particularly in light of the increasing beer consumption in the Asian countries which are right on our doorstep.

If the beer industry were to receive immediate funding and resourcing, these export opportunities could be developed and capitalised on. The Australian Government needs to commit funds to the beer industry to ensure parity between wine and beer and to grow the potential of the beer market, both in the domestic and export markets.

Global perspective when there is disparity between wine and beer industries

Across Europe, many wine producers are exempt from paying any tax at all. As highlighted by Oxford Economic Forecasting, the disparity between wine and beer 'distorts competition, on the one hand, beer and, on the other hand, wine and other fermented beverages (eg cider) – **encouraging consumers to increase their wine and cider consumption at the expense of beer.**'⁷⁵

It can be said that because there has been such significant disparity between wine and beer in Australia, and for so long, this has significantly distorted the Australian market with time and ultimately has benefited the wine industry at the cost of the beer industry.

DISPARITY BETWEEN WINE AND BEER IN AUSTRALIA

As Australian small real craft beer has many similarities with Australian wine, we take a look at how the two taxation systems compare between wine and beer. Wine Equalisation Tax (WET) for wine and excise tax for beer.

Beer vs Wine in Australia

There are significant disparities in taxation and government support of Australian wine and Australian beer as highlighted regularly by brewers, academics, and journalists alike. It is time to reform excise tax on beer produced by small and independent breweries in Australia and support these small and independent brewers in a way that is comparable and fair relative to the situation of small and independent wineries which have been given support since 1 October 2004.

⁷² Statement 6: Expenses and Net Capital Investment, Budget Strategy and Outlook, Budget Paper No. 1 2012-13. Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector

⁷³ Statement 6: Expenses and Net Capital Investment, Budget Strategy and Outlook, Budget Paper No. 1 2012-13. Table C5: Estimates of average staffing level (ASL) of agencies in the Australian Government general government sector

⁷⁴ Budget Strategy and Outlook, Budget Paper No. 1 2012-13. Table B3: Reconciliation of 2011-12 general government (accrual) revenue

⁷⁵ The Consequences of the Proposed Increase in the Minimum Excise Duty Rates for Beer – A Report for the Brewers of Europe by Oxford Economics Forecasting 17 November 2005

Ken Henry highlighted the disparity when he presented the Henry Tax Review in 2009:

*"For example, a two litre wine cask costing \$10.99 includes roughly \$1.59 of wine equalisation tax and an equivalent volume of alcohol in a full strength beer would attract \$7.48 in excise tax, and in spirits, \$16.45".*⁷⁶

*"As highlighted in this report above, beer excise tax is 4.7 times the wine tax (WET) in this example. This again illustrates the inequality between beer and wine within the Australian market also".*⁷⁷

Excise and Import Taxes on Wine, Beer and Spirits – An international comparison – Kym Anderson, December 2009 (South Australian report) states:

*Australia's beer and spirits Consumer Tax Equivalent (CTEs) are about seven times and twice the OECD unweighted averages of 10 and 85 percent for beer and spirits respectively*⁷⁸. Hence, beer is about 7 times the OECD unweighted average of 10%.

CASE STUDY 1 - ILLUSTRATES THE DISPARITY BETWEEN WINE & BEER

To compare the taxation of beer and wine in Australia, we provide a case study and use data published in the Henry Tax Review, 2009. The Henry Tax Review determines that beer excise is \$7.48 and wine equalisation tax is \$1.59 for equivalent volumes of alcohol. However, to fully compare wine and beer taxes, you need to consider the impact of the industry tax rebates.

Note that all figures in relation to these case studies are stated in AUD.

Wine: A Wine Company W sells two litre casks of wine for \$10.99 and pays \$1.59⁷⁹ in Wine Equalisation Tax and then receives the Wine Equalisation Tax (WET) Rebate on the first \$500,000 of WET.

The total number of 2 litre casks sold equivalent to the WET rebate amount is calculated by dividing \$500,000 /\$1.59 which equals 314,465 2L casks. Therefore, if the Wine Company sells 314,465 casks, it would have paid WET of \$500,000 but receives the full WET rebate of \$500,000, thereby paying no WET.

Wine Company WET Paid
= (Casks of Wine Sold) x (WET on wine)
= 314,465 x \$1.59
= \$500,000 in wine equalisation tax payable
= less \$500,000 WET rebate
= **\$0 WET payable**

⁷⁶ Australia's Future Tax System – Report to the Treasurer December 2009 Part One Overview, Chapter 8.3 page 55 – Enhancing Social and Market Outcomes Alcohol Taxation

⁷⁷ Australia's Future Tax System – Report to the Treasurer December 2009 Part One Overview, Chapter 8.3 – Enhancing Social and Market Outcomes Alcohol Taxation

⁷⁸ Excise and Import Taxes on Wine, Beer and Spirits – An international comparison – Kym Anderson, December 2009 (South Australian report) page 6

⁷⁹ Australia's Future Tax System – Report to the Treasurer December 2009 Part One Overview, Chapter 8.3 page 55 – Enhancing Social and Market Outcomes Alcohol Taxation

Beer: The equal volume of alcohol in beer attracts \$7.48⁸⁰ in excise tax. Assuming an equal volume of beer is sold by a small brewer the following tax is paid.

Craft Brewers Excise Paid
= (equal volume of alcohol in beer) x (excise tax rate)
= 314,465 x \$7.48
= \$2,352,198 in beer excise tax payable
= less \$30,000 excise rebate on beer
= **\$2,322,198 beer excise tax payable**

Conclusion: With the example above, for the same volume of alcohol sold, a craft brewer pays \$2.3 million in excise tax whereas a wine producer pays no tax.

CASE STUDY 2 - ILLUSTRATES THE DISPARITY BETWEEN WINE & BEER

Another way to quantify the disparity between wine and beer is to look at the equivalent level of excise tax paid by a small and independent craft brewer compared to the Wine Company based upon the same number of Total Standard Drinks.

Wine: We assume a typical bottle of Australian wine at 13% alcohol is 750ml and has approximately 8 standard drinks. If a Wine Company sells 314,465 2L casks of wine for \$10.99, receives the full \$500,000 WET rebate and we assume the cask of wine sold is 13% alcohol, this equates to 21.28 standard drinks per cask.

Total WET Rebate
= 314,465 x 21.28 standard drinks in a cask
= 6,691,815 standard drinks of wine
= **\$0 WET payable (100% of WET rebate used)**

Beer: We assume a standard carton of craft beer has 4.6% alcohol and 24 x 330ml bottles. Each bottle of beer is equal to 1.3 standard drinks. Therefore, there are 31.20 standard drinks per carton.

From calculations above, the full WET rebate is equivalent to 6,691,815 standard drinks of wine. This metric needs to be converted to cartons of beer in order to calculate excise tax payable (by dividing 6,691,815 total standard drinks by 31.20 standard drinks per carton of beer) which equals 214,481 cartons of beer.

Beer excise tax payable
= (Number of cartons of beer) x (current excise tax applicable)
= 214,481 cases of beer x \$10.72⁸¹ per case
= \$2,299,236 beer excise tax payable
= less \$30,000 excise rebate
= **\$2,269,236 excise tax payable**

⁸⁰ Australia's Future Tax System – Report to the Treasurer December 2009 Part One Overview, Chapter 8.3 page 55 – Enhancing Social and Market Outcomes Alcohol Taxation

⁸¹ Excise tax payable is calculated using the current excise rates of taxation on bottled beer of \$44.37 per litre of alcohol as at 1 July 2012.

Conclusion: The Wine company has produced 6,691,815 standard drinks of wine and paid no WET tax, whereas the small brewer has produced an equivalent 6,691,815 standard drinks of beer and has paid \$2,269,236 in excise tax. This example again highlights the disparity between wine and beer. For the same quantity of alcohol or total standard drinks a wine company pays no WET tax whereas a small brewer pays excise tax of \$2.2 million.

CASE STUDY 3 – ILLUSTRATES THE DISPARITY BETWEEN WINE & BEER

Hypothetically, if the Australian Government were to extend the 60% excise rebate that a small brewer receives under the excise tax regime from \$A30,000 to \$A1 million and the same excise tax was calculated as per Case Study 2.

Wine: WET payable in Case Study 2
= \$0 WET payable (100% of WET rebate used)

Beer: Calculation of the excise tax rebate available
 = \$2,299,236 x 60% rebate
 = \$1,379,541
 = BUT as the rebate is capped at \$1,000,000
 = \$1,000,000 is only rebateable

Excise tax still payable
 = \$2,299,236 less excise rebate of \$1,000,000
= \$1,299,236 excise tax paid

Conclusion: If the Government increases the 60% excise rebate to \$1,000,000, it goes some way to closing the equality gap on beer and wine. However, brewers are still paying \$1.3 million whereas the Australian wine producer (producing an equivalent volume of alcohol) pays no WET tax.

To summarise the results of the three case studies above:

Case Study	Wine WET tax payable (\$A)	Beer excise tax paid (\$A)
1 - Equal Volume of Alcohol	\$0	\$2,322,198
2 - Equal Total Standard Drinks	\$0	\$2,269,236
3 - Increase excise tax rebate to \$A1 million	\$0	\$1,299,236

Recommendations from the Henry Tax Review 2009

These case studies leads directly to Ken Henry’s point as part of the Henry Tax Review from 2009, when he presented in one of his recommendations that “All alcoholic beverages should be taxed on a volumetric basis”⁸² Strategically, we agree with his recommendation of a volumetric tax system across both beer, wine and spirits retaining an exemption for the small brewers and wine producers rebate if the Australian Government is looking to adopt this particular recommendation in the medium to long term.

⁸² Australia’s Future Tax System: Report to the Treasurer December 2009 (Henry Tax Review) List of Recommendations E5 – Alcohol Taxation, Recommendation 71

As the Henry Tax Review also noted that 'A common volumetric tax on alcohol would better address social harm through closer targeting of social costs. The rate should be based on evidence of net social costs. Moreover, removing the concessions between different manufacturing processes, the compliance and administration costs of the existing excise system would be reduced'.⁸³

Other effects and impacts of wine inequality

Another point to note is that the Wine Equalisation Tax Rebate is available to any wine producer in Australia. This means that any foreign owned multinational wine conglomerate also receives \$500,000 reduction in WET. The top 6 wine producers in Australia and their turnover are:

Company	Revenue (\$AUD million)	Year
Accolade Wines	\$438m	2012
Treasury Wine Estates	\$1,716m	2012
Casella Wines	\$412m	2011
Premium Wine Brands *	\$10,250m	2012
Australian Vintage	\$229m	2012
McWilliams Wines	\$200m	2012

Data has been sourced from IBISWorld Industry reports and/or the company's annual reports

* Premium Wine Brands is owned by Pernod Ricard, a French company with revenues of \$Euro8.2 billion in 2012.

All of the wine organisations in the table above are entitled to receive the full \$A500,000 WET Rebate. Why then do family owned small real craft breweries in Australia only receive a \$30,000 excise tax rebate? This does not give Australian small breweries a fair go.

SMALL PRODUCER REBATE LEVELS IN AUSTRALIA

It is time to bring some equality back into the nation's beer industry as small real craft brewers have been harshly taxed in comparison to their cousin, the wine industry. Over 95% of all Australia's wine producers have not paid any WET tax since the introduction of the WET rebate in 2004.

Table E shows Government revenues received from and rebates paid to the wine and beer industry.

The Table shows that over the past 9 years, wine has contributed \$6.231 billion in government revenues and small producers have received \$1.785 billion (or 28.65% of revenues) back in WET Producer Rebates. In contrast, beer has contributed \$17.07 billion in government revenues and small brewers have received a mere \$0.04 billion (\$4 million or 0.02% of revenues) in excise tax rebate.

The wine industry has received back 28.65% of WET tax paid. **If the beer industry had received an equivalent amount of its excise tax back, it would have been entitled to over \$4.9 billion dollars in excise rebates.** And yet, small independent brewers have received only \$4 million (or 0.02%) to date.

An increase to the excise rebate will provide very real and immediate support to small real craft breweries and goes some way to closing the equality gap on beer and wine. It is also important to note that as shown later in the White Paper even with a \$A1 million

⁸³ Australia's Future Tax System: Report to the Treasurer December 2009 (Henry Tax Review) List of Recommendations E5 – Alcohol Taxation, Recommendation 71

excise rebate, brewers would still be paying \$1.3 million whereas an Australian wine producer (producing an equivalent volume of alcohol) pays no WET tax.

INEQUALITY BETWEEN CONCESSIONS AND REBATES IN AUSTRALIA

There are several different types of concessions and rebates paid to the beer and wine industry which are shown below and which represents a sizable amount of funds over a decade and more.

Table F – Alcohol Concessions for Beer and Wine is a detailed table attached to this White Paper which shows annual concessions and rebates paid by the Australian Government to the wine and beer industries respectively over a 12 year period from 2001 to 2013. The data has been sourced from the published Tax Expenditure Statements (TES) released by the Australian Taxation Office.

The table below summarises the annualised data in Table F and shows the allocation of these payments between small wine producers/small breweries and major/international players in the markets.

ALCOHOL CONCESSIONS	Total Concessions \$m	% Small players represent in market	Small Commercial Producers \$m	Major/ International Producers \$m
BEER				
Brew-on premises (non-commercial)	35		-	-
Draught beer (lower excise tax rate) *	1,890	0.25%	5	1,739
Low strength packaged beer	90	0.25%	0	83
Privately produced beer	440		-	-
Small breweries rebate (\$10/30k rebate) **	4		4	-
Total Beer Concessions	2,459		9	1,822
WINE				
Privately produced wine	115		-	-
WET Cellar Door Rebate	49	90.0%	44	5
WET Producer Rebate	1,785	90.0%	1,607	179
Total Wine Concessions	1,949		1,651	183
New Zealand Wine Producer Rebate	98	100.0%	98	
Total Concessions	4,506		1,758	2,005

* The Federal Government views the bottle excise tax rate as the full benchmark excise tax rate. In the published Tax Expenditure Statements, the reduced excise tax rate applicable to draught beer (greater than 48L) is calculated as a concession amount and totalled annually.

** In Table F, the Australian microbrewery excise tax rebate in the Tax Expenditure Statements from 2001 to 2011-12 has been rounded down to zero. This means that the actual rebate paid was less than \$A0.5m per year as not many breweries were eligible.

The data above is presented in a slightly different format in the table below to highlight the inequality of the allocation of beer and wine tax rebates and concessions between small producers and big/international producers as it relates to beer.

Rebate and Concessions paid to Producers	Paid between 2001 - 2013 \$m
Small Wine Producers	1,651
Major/International Breweries	1,822
Major/International Wine Producers	183
New Zealand Wine Producers	98
Small Breweries	9
	3,763

In summary,

- 1. Wine Rebate:** It is clear that the original intent of the WET Producers Rebate is being achieved as 90% of the \$1,651 million is being received by the majority of the small wine producers. However, the same cannot be said of beer.
- 2. Beer Concessions:** As explained above, draught beer is taxed at a concessional (or lower) tax rate than bottled beer. Small independent breweries receive a negligible level of support in excise concessions on draught beer. However, the two internationally owned conglomerates have between them approximately 92% of the beer market and dominate the draught market, thereby receiving at least 92% of the total draught beer concessions at \$1,822 million. **Why is the Australian Government giving on average \$150 million per year in concessions to the most profitable breweries in the world?**
- 3. Beer Rebate:** The Australian Government has paid a total of \$4 million in the Microbrewery Excise Tax Rebate since 2001 to 2012-13. The rebate in previous years has been rounded down to zero which means that the actual rebate paid was less than \$A0.5 million per year from 2001 to 2011-12 probably because not many breweries were eligible. The total amount of excise rebates and pro-rata concessions paid to small breweries is estimated to be \$9 million for the 12 year period from 2001-02 to 2012-13.
- 4. NZ Wine Rebate:** As a comparison, New Zealand wine producers receive considerably more in rebates of \$98 million over 12 years compared to small independent breweries who have received \$9 million in concessions and rebates for the same period.

DISPARITY BETWEEN BEER AND WINE IN OTHER COUNTRIES

We have not investigated the international landscape of wine as this is beyond the scope of this report.

However, we do provide the example below where wine has a zero tax burden in Europe which highlights the extreme levels of unfair competition between Australian beer compared to European wine.

In 1992, there was a European Commission Council Directive enacted which stated that the minimum excise duty to be set on wine and sparkling wine was zero. It is against this backdrop and the local inequality between Australian beer and wine, which highlights the need for urgent excise tax relief for small Australian breweries.

- Council Directive 92/84/EEC of 19 October 1992 on the approximation of the rates of excise duty on alcohol and alcoholic beverages. This Directive sets down the minimum rates which are as follows:
 - For alcohol (spirits), 550€ per hectolitre of pure alcohol
 - For intermediate products, 45€ per hectolitre of product.
 - **For wine and sparkling wine, zero rate.**
 - For beer, 0.748 € per hectolitre per degree Plato, or 1.87€ per hectolitre per degree alcohol, of finished product.
- It also provides for reduced rates for certain departments and islands of the Hellenic Republic, certain regions of Italy and, for Portugal , Madeira and the Azores.⁸⁴

The European Commission in 2005 suggested that the minimum excise duty rates for alcoholic beverages should be increased in line with the rise in the EU-wide consumer price index since they were first set in 1992.⁸⁵

These proposals would mean excise duty rates for beer would have to increase for many members of the EU and these increases will be substantial for some countries such as Germany, Luxembourg, Czech Republic.

In contrast, the minimum duty rate on wine would remain at zero.⁸⁶

WHY BEER DESERVES PARITY WITH WINE IN AUSTRALIA

Australia has very different tax systems between wine and beer. From a broad perspective, this has a detrimental effect on the government tax revenues as wine has a lower tax burden than beer, and it creates an unequal playing field between wine and beer.

Australian small real craft beers share many similarities with Australian wines. A closer look illustrates the inequality of the two taxation systems which significantly favours wine over beer. A summarised comparison of Australian wine and Australian small real craft beer is:

Metric	Wine	Small Real Craft Beer
Tax Rebate as % of Tax Revenue	28.65%	0.02%
The Dollar Amount of the Rebate	\$A500,000	\$A30,000
Tax Amount on equal volumes of alcohol	\$1.59	\$7.48
Is there a Qualifying Criteria to access the Rebate?	No	Yes *

* From 2001 to 2012 only small brewers that produced less than 30,000 litres of beer per annum received a rebate up to a maximum limit of \$10,000. Once a brewery exceeded 30,000 litres in production, they were not entitled to any rebate. As of 1 July 2012, the production limit was removed (no limit to be small) and all independent breweries are entitled up to a \$30,000 excise rebate.

⁸⁴ Commission /Legislation/Council Directive 92/84/EEC of 19 October 1992 on the approximation of the rates of excise duty on alcohol and alcoholic beverages

⁸⁵ The Consequences of the Proposed Increase in the Minimum Excise Duty Rates for Beer – A Report for the Brewers of Europe by Oxford Economics Forecasting 17 November 2005

⁸⁶ The Consequences of the Proposed Increase in the Minimum Excise Duty Rates for Beer – A Report for the Brewers of Europe by Oxford Economics Forecasting 17 November 2005

CONCLUSION

Australian small breweries operate in a competitive landscape dominated by two massive foreign owned duopolies and increasing imported beers, a global craft beer movement with increasing labour and other costs

It is important, now more than ever, for Australian small independent brewers to be able to compete on a level playing field, both internationally and nationally, as Australian small real craft brewers are facing tough competition for access to retail shelf space and taps and on price against imported beer and beer produced locally by the foreign owned multi-national brewing conglomerates.

The governments of 22 out of 33 OECD countries recognise that they have to support local small independent breweries through excise tax reductions to support domestic beer production, to stimulate employment in manufacturing and tourism industries. One job created in the real craft brewing industry will create 15-16 other jobs in supply, hospitality and retail industries.

The various metrics in this report highlight the inequality in the Australian taxation system for small breweries. The report highlights the current disparity between Australian beer and the rest of the world. The current Australian taxation system on beer for small breweries imposes a high tax burden relative to the rest of the world penalising local providers which thereby results in unfair competition and disparity of trade with other countries.

We have also identified inequalities in the Australian taxation systems which significantly favours wine over beer.

In order to build strong and sustainable small independent brewers, we are seeking excise relief for beer to remove the disparity between 1) Australian beer and beer in the rest of the world and 2) the disparity between Australian wine and Australian beer. The benefits of increased excise relief will create jobs, manufacturing, export and tourism opportunities and thereby ensure the viability and expand the growth of Australian small breweries. We request the Australian Government and Treasury extend the current microbrewery excise refund amount as of 1st July 2013 to bring it into line with the OECD 33 countries,.

The Federal Government needs to provide the support and funding in the form of the following initiatives:

- Significant and immediate increase to the amount of the excise rebate on beer. It must be remembered that small independent brewers still pay 40% excise tax up to the rebate amount and 100% beyond the rebate amount. ARCBA recommends increasing the excise rebate over a five year period up to the OECD 33 country average to bring Australian excise rebate inline with the rest of the world.
- Annual funding for quality training and testing to get Australia's local small and independent breweries export ready and then to start developing export markets and exporting. (The US Government currently gives \$US450,000 to the industry per year)
- Access to investment grants offering matched funding for small independent real craft breweries from the government. This will be used to build domestically produced and Australian owned small independent real craft beers, to further build tourism, jobs and export revenues.

Further excise relief and funding commitments will finally put Australia's small real craft breweries on an equal footing with other small breweries in the OECD, US and around the world, virtually all of whom enjoy significant excise tax incentives in their home markets.

By providing increased excise relief for Australian small breweries this will create fairer competition and parity of trade which will encourage the purchase of domestic over imported beer products, thereby creating economic stimulus and export opportunities.

Once differential tax treatment was implemented for small breweries in the US, UK and Canada they experienced an explosion in growth of 35% to 58% with jobs creation and capital investment. This then led to increased beer production, improved profitability and higher excise revenue and company income tax.

We believe that the cost of increasing the excise rebate will be more than offset by increased government revenues on GST, company tax, personal income taxes etc, making it a self-funded government budget initiative.

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TABLES AND APPENDICES

APPENDIX A

A brief comparison of small independent breweries to Australia's mining industry and effective taxation rates

Australian mining companies are enormous organisations and yet pay a significantly lower effective rate of taxation compared to Australian owned small real craft brewers.

The effective rates of taxation for the mining industry are reported as ranging from 45.40% to 35.5%⁸⁷ including company tax (assuming differing rates of return from 6% to 50%⁸⁸). Whereas, Australian breweries pay an approximate tax rate of 40% (10% in GST and 30% in excise tax) on draught beer with company taxation on top of this.

For example, the three largest mining companies in Australia are massive in size:

- BHP Billiton reported revenues of \$US72.2⁸⁹ billion with an underlying EBIT of \$US27.2 billion for the 2012 financial year.
- Rio Tinto reports net earnings of \$5.8 billion in 2011⁹⁰
- Xstrata reports for 2011 revenues of \$33.8 billion and an operating EBITDA \$11.6 billion⁹¹

The Federal Government has committed to tackling this disparity by introducing the mining tax. It now needs to commit to increasing support to Australian small independent breweries too.

⁸⁷ www.dailybludge.com.au – Facts and Figures about the Mining Tax

⁸⁸ www.dailybludge.com.au – Facts and Figures about the Mining Tax

⁸⁹ BHP Billiton Summary Review 2012

⁹⁰ Rio Tinto 2012 Full Year Results <http://www.riotinto.com/documents/Investors/>

⁹¹ <http://www.xstrata.com/investors/key-financials/>

TABLE A – TAXATION OF BEER (OECD 33 COUNTRIES)

TABLE B – SUMMARY OF TAXATION OF BEER (OECD 33 COUNTRIES)

TABLE C - TABLE 5.1 – TAXATION OF BEER

TABLE D – DATA FOR CHARTS 1 TO 8

TABLE E – GOVERNMENT REVENUES AND REBATES

TABLE F – ALCOHOL CONCESSIONS FOR BEER AND WINE