



Spirits industry sector competitiveness plan

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

MARCH 2024

Prepared for Australian Distillers Association (ADA)
and Bundaberg Rum

**Australian
Distillers**

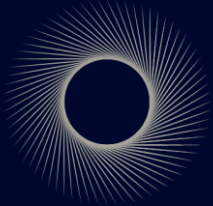


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Note: All dollar figures are Australian dollars unless indicated otherwise.

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

<p>1</p> <p>The Spirits industry supports almost \$1.2 billion in economic activity and over 7,600 FTE jobs and contributes to many national economic priorities</p>	<p>2</p> <p>Despite this, exports are small compared to the wine industry and international peers</p>	<p>3</p> <p>Spirits exports could reach \$1 billion by 2035 if Australia realised its potential</p>	<p>4</p> <p>However, there are several barriers holding Australia back from realising this potential</p>	<p>5</p> <p>Government can act now to help create a \$1 billion export industry akin to the wine industry</p>
<ul style="list-style-type: none"> Growing Manufacturing Jobs 5,700 manufacturing FTE jobs Supporting Small Business 88% of distillers have fewer than 20 employees Empowering Regional Communities 48% of distillers located outside of capital cities Creating Export Opportunities Growing regional demand and drink preferences Generating Tourism Over 630,000 visitors annually Supporting diversity and young people More than half of the workforce are younger than 35 years old 	<p>6th </p> <p>Australian wine exports ranked 6th in the world¹</p> <p>VS</p> <p>29th </p> <p>Australian spirits exports ranked 29th in the world¹</p>	<p>\$210m</p> <p>Export industry in 2022</p> <p>\$1b</p> <p>Export industry by 2035</p>	<ul style="list-style-type: none"> Cost of alcohol and excise tax Country branding Trade support & conditions Ease of doing business 	<ul style="list-style-type: none"> Attract investment Build industry capability Streamline regulation Access markets <p>...with two priority initiatives</p> <ul style="list-style-type: none"> Freeze on excise tax & broader reform Establish 'Spirits Australia'

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

Executive summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

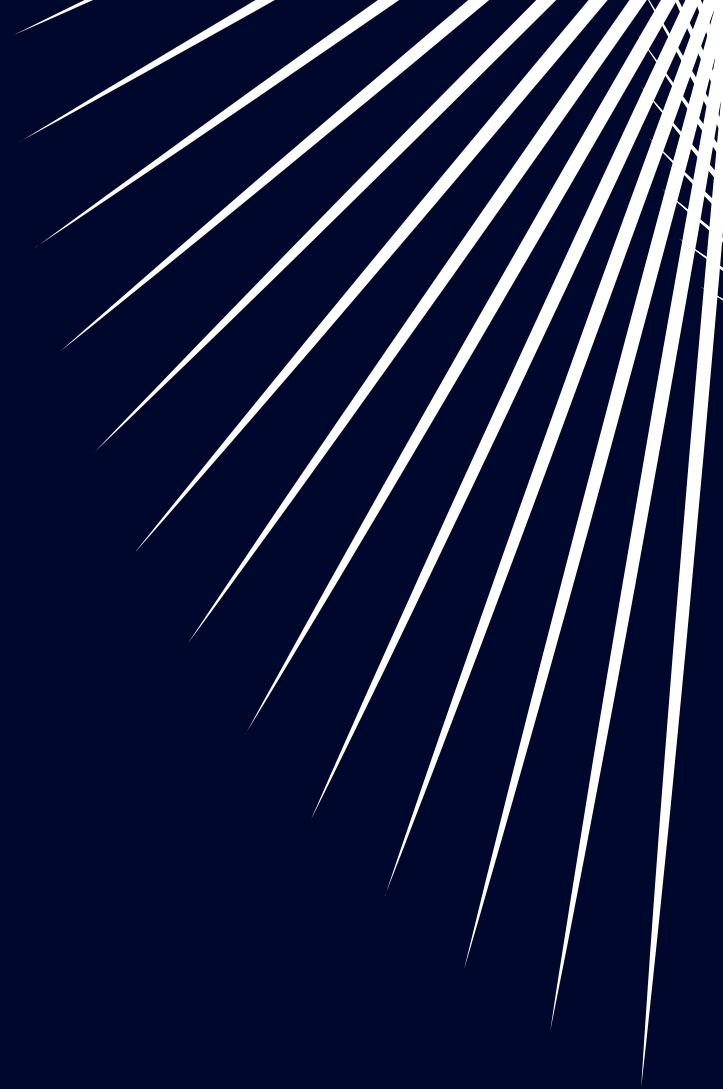
This would help set the industry on a path to becoming another Australian export powerhouse, just like our wine industry, with the jobs, growth and skills that come with it.



SECTION 1

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

- 2 The Australian spirits industry has the potential to be a \$1 billion export industry by 2035
- 3 Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its \$1 billion potential
- 4 The Government can help unlock the potential of the spirits industry to capture this \$1 billion export opportunity
- 5 Appendix



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

Australian Spirits Industry Pillars



01. Domestic sales

Through off-premise sales, wholesalers or distributors within Australia



02. Tourism

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



03. Exports

Through off-premise, wholesalers or distributors outside of Australia



Benefits of the Australian Spirits Industry



Growing Manufacturing Jobs

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



Supporting Small Business

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



Empowering Regional Communities

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



Creating Export Opportunities

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



Generating Tourism

The spirits industry attracts over **630,000** visitors annually¹



Supporting diversity and young people

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

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

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

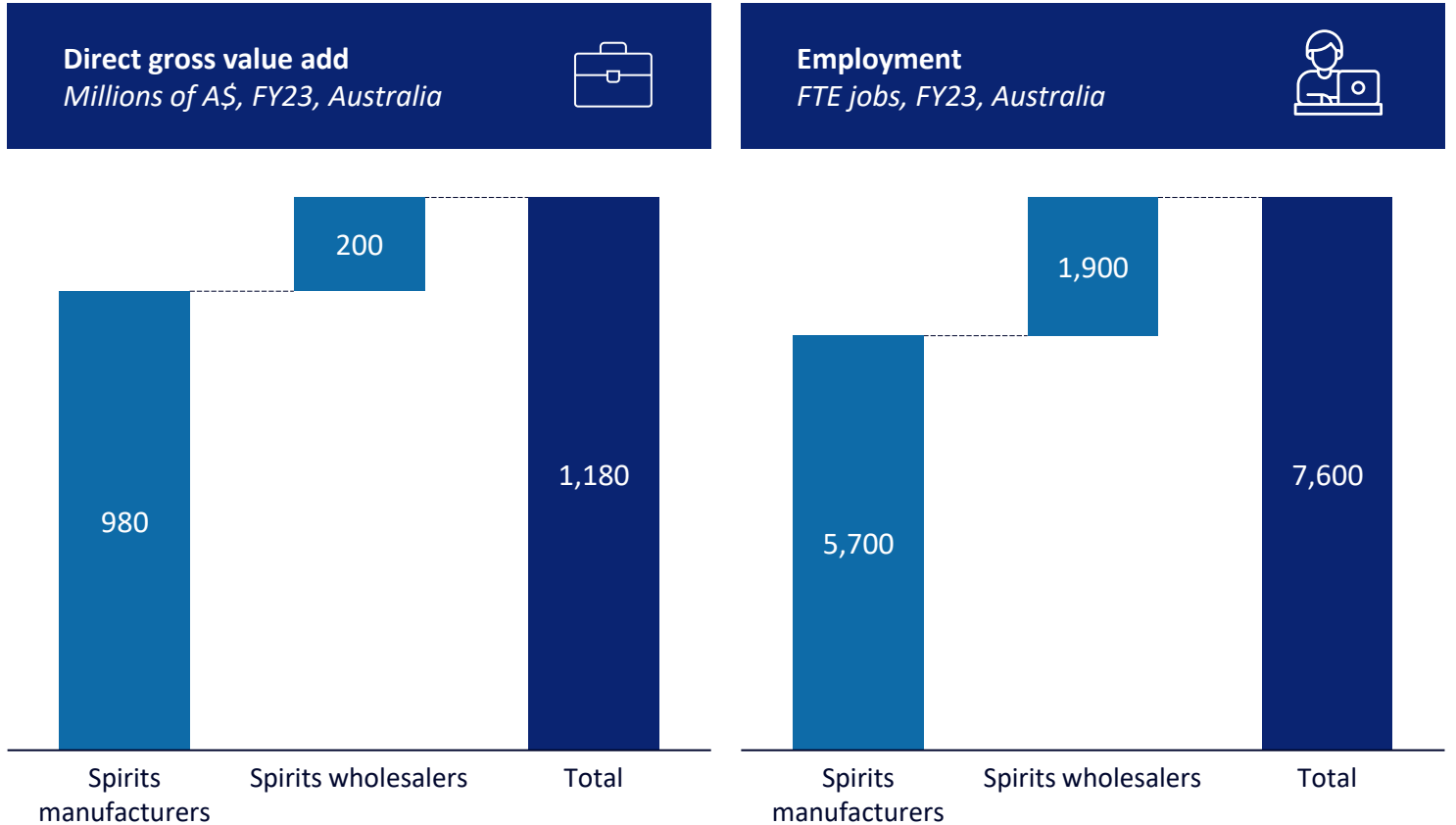
The manufacturing and wholesaling of spirits supports \$1.18 billion in direct economic contribution and 7,600 FTE jobs.

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

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

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

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



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

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

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

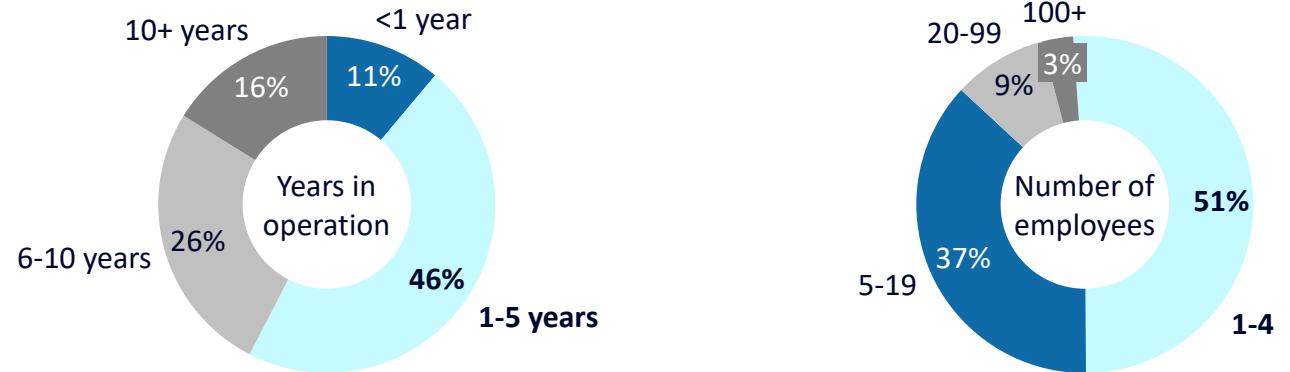
New South Wales and Victoria account for the largest share, with 48% of distilleries located in the two states.

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

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

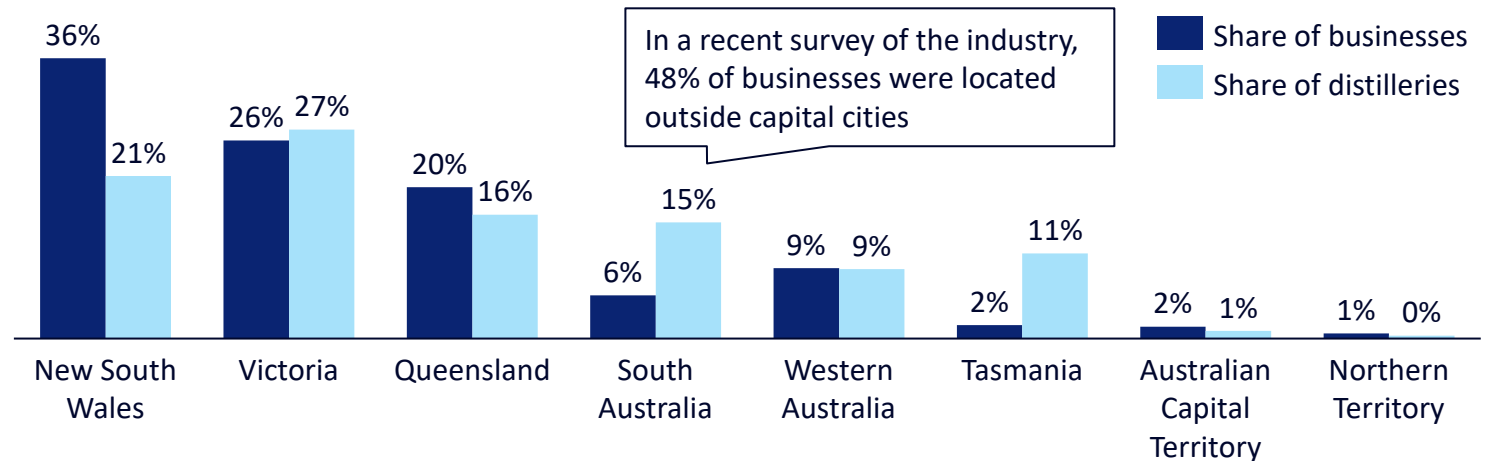
Breakdown of distilleries by years in operation and number of employees

% of businesses, 2023, Australia



Share of total businesses and distilleries by state and territory

% of businesses¹ and % of distilleries, 2023, Australia



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

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

Growth in visits to distilleries by domestic overnight visitors increased by 16% each year between 2019 to 2022.¹ In 2019, 407,000 domestic travellers visited a distillery as part of an overnight trip, and this grew to 631,000 in 2022. This number is higher when we include domestic, day-only visitors. In FY22 and FY23 there were 152,000 and 204,000 domestic day-only visitors to distilleries, respectively.²

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

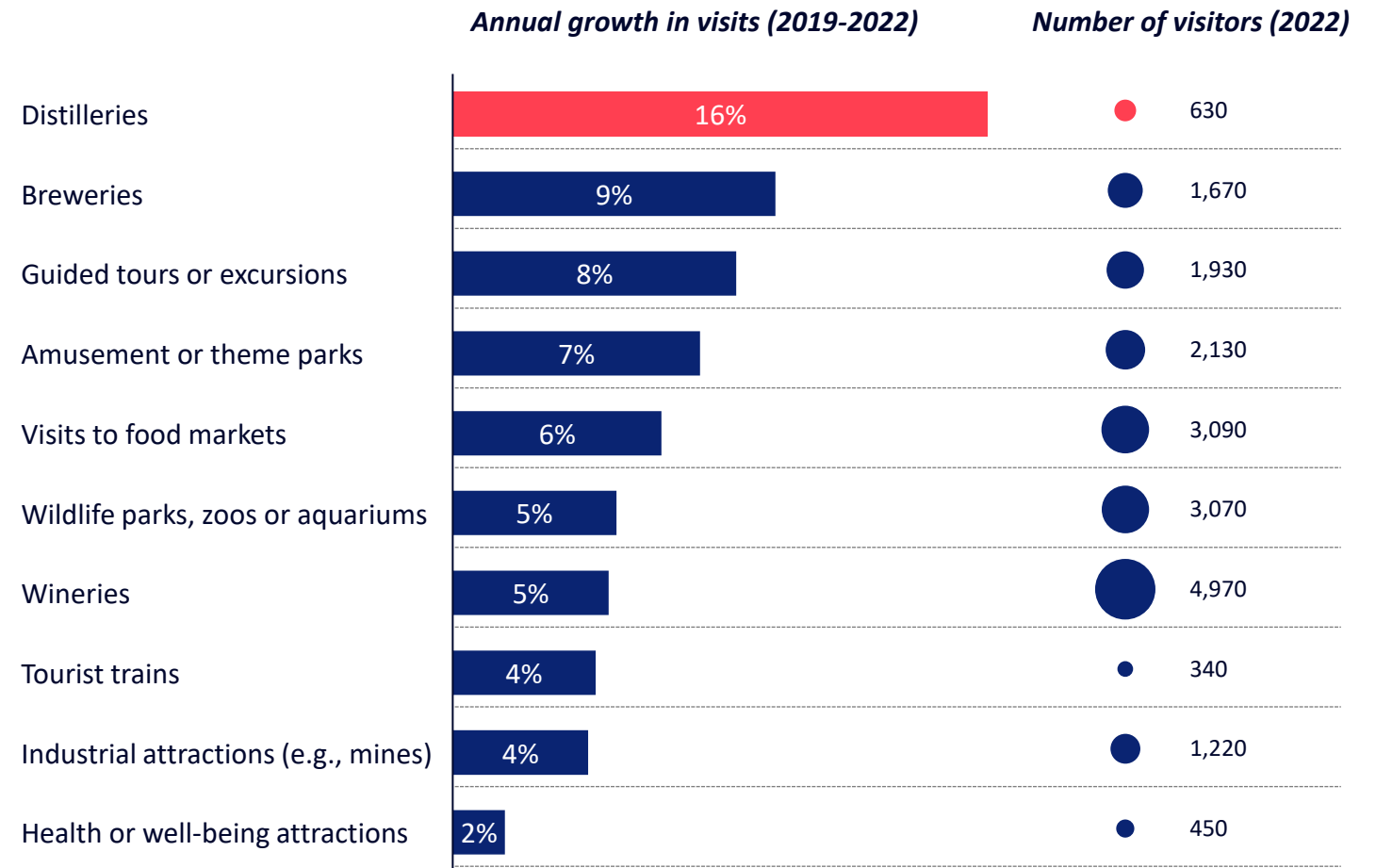
Domestic overnight trips typically account for three-quarters of total annual domestic tourism expenditure and spending on these visits is typically 6x higher compared to a day trip.

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

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

Change in overnight domestic visitors and total visitors by activity

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



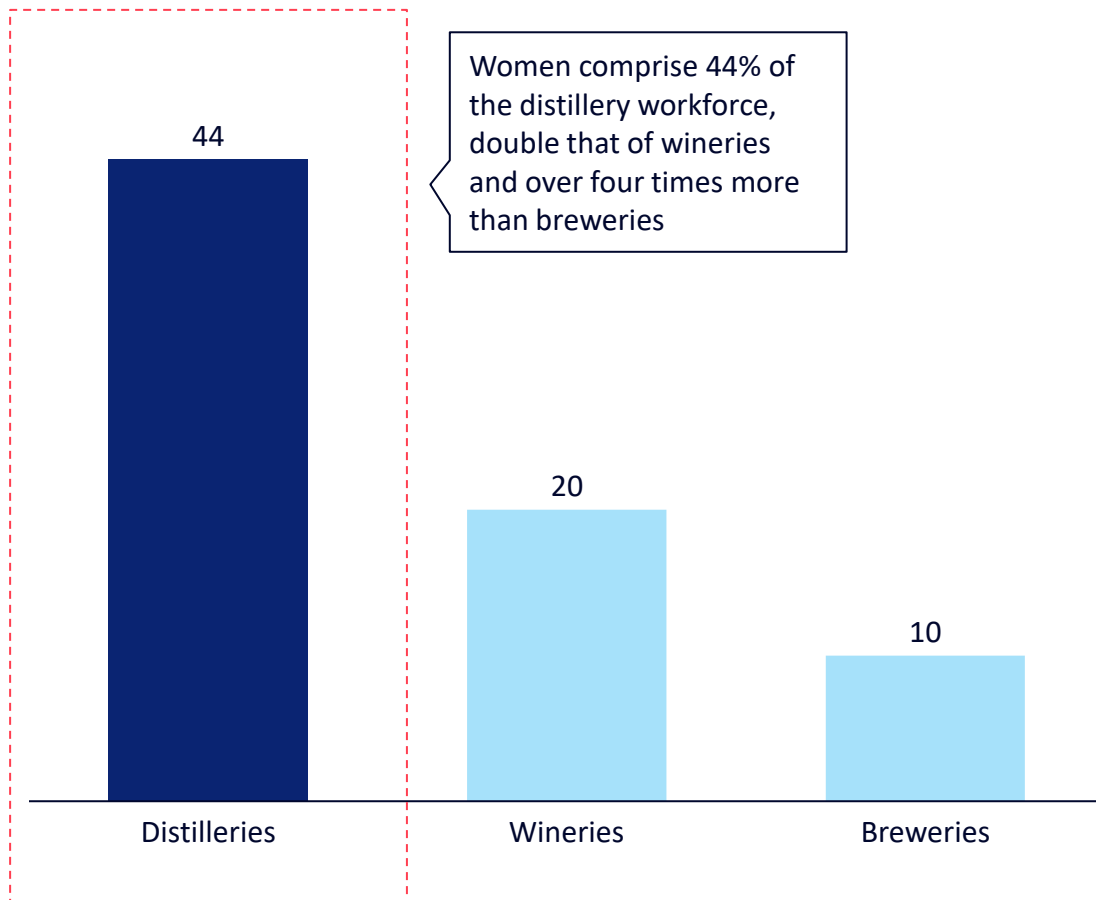
Notes: (1) Includes those who have taken a trip at least 40km away from home for at least one night and less than one year. (2) According to Deloitte's Spirit Industry Survey.

Sources: Australian Distillers Association, Spirits and Cocktails Australia (2022) *Unleashing the potential of the spirits industry*, Tourism Research Australia (2021) *Domestic tourism forecasts*, Tourism Research Australia (2023) *Tourism purpose of travel for overnight domestic travellers*, Victorian State Government (2019) *Guide to Tourism Data Sources, Methodologies and Definitions*, Broadsheet (2022) *After a Colossal \$7 Million Expansion, Victoria's Four Pillars Reasserts Itself as a World-Class Gin Destination*, Deloitte (2024) *Australian Distillers Survey*, Mandala analysis.

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

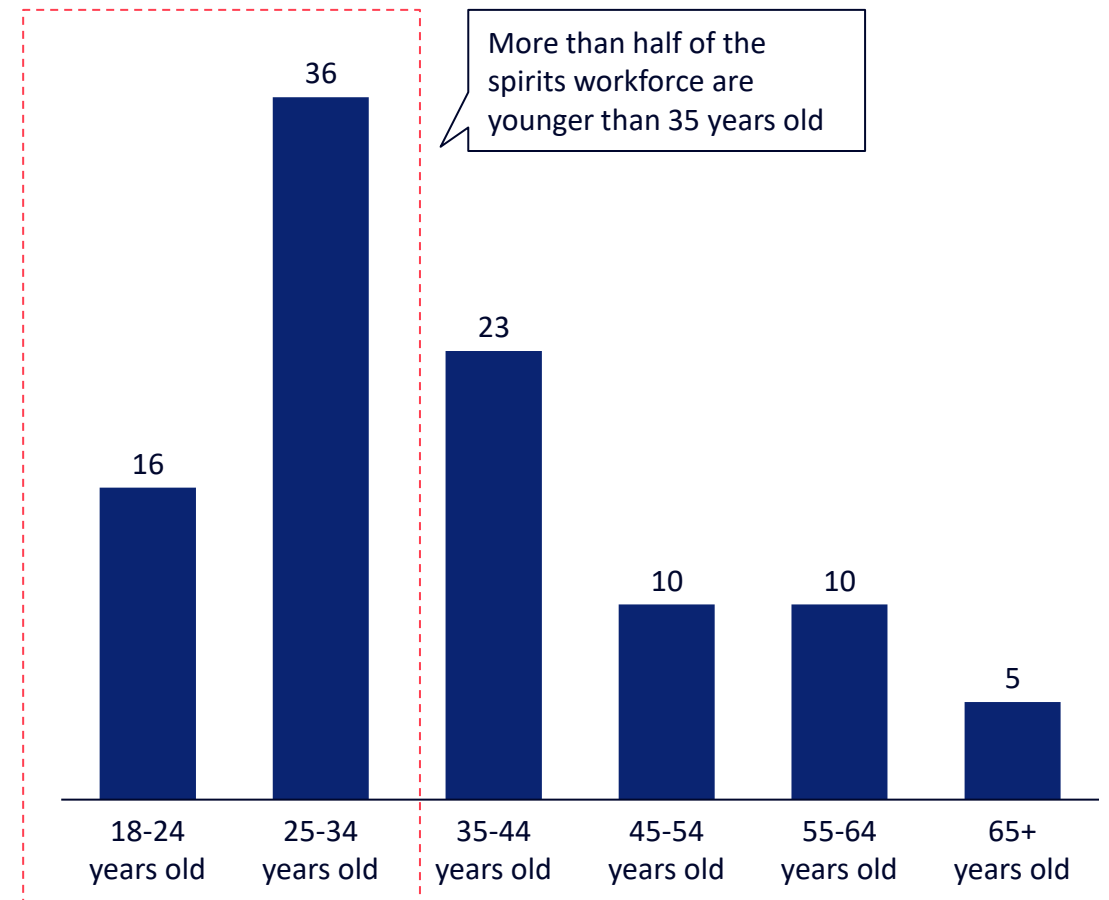
Proportion of women across alcoholic beverages industry

% of workforce, 2021



Age distribution of spirits workforce

% of workforce, 2023



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

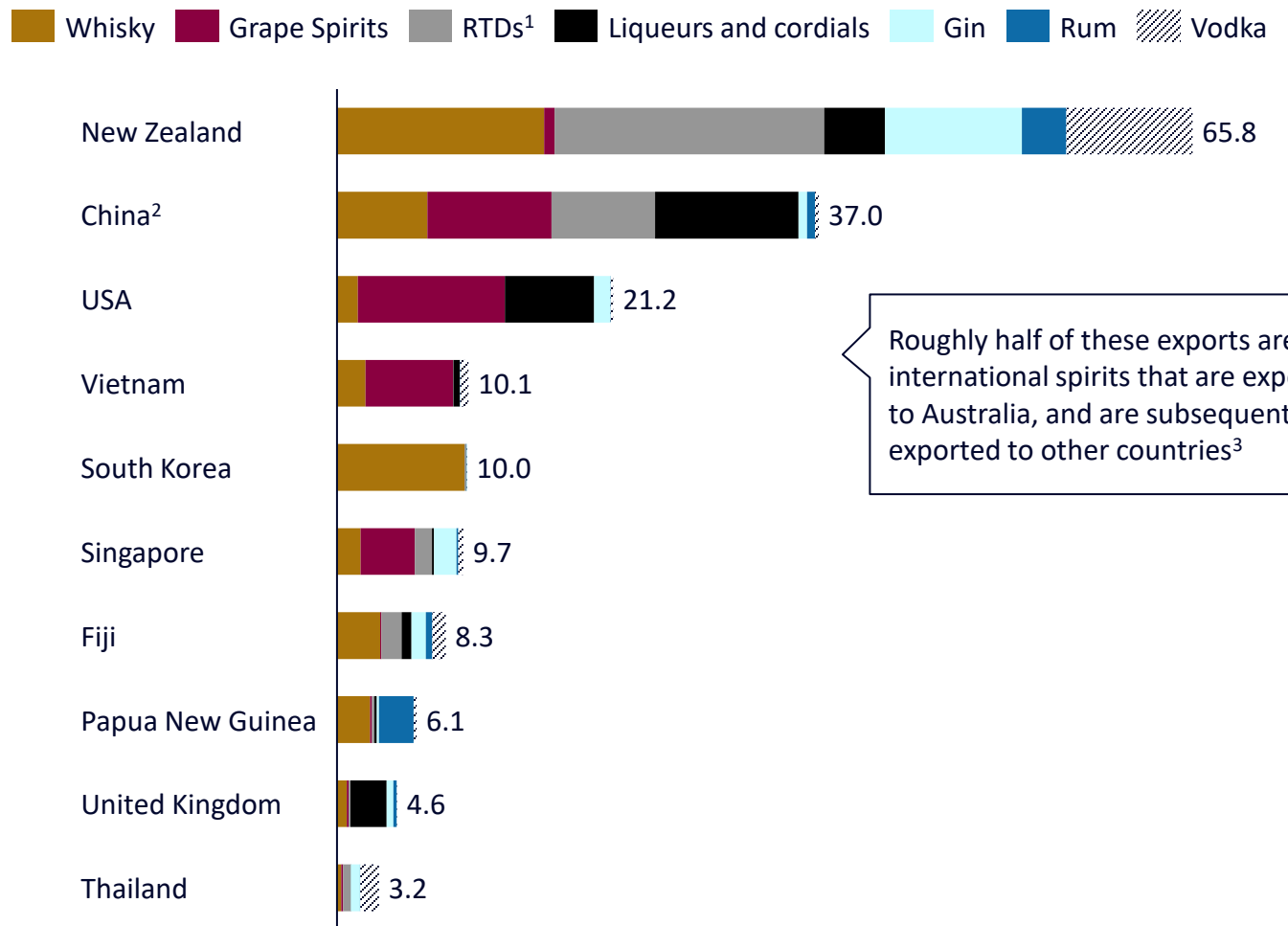
Over half of Australia's spirits exports are to key trading partners, New Zealand, China, and the United States, who primarily import Australian whisky, grape spirits and RTDs. These countries have consistently been top destinations for Australian spirits, followed by Vietnam, Singapore and South Korea,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

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

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

Australian spirits exports by country and type of spirit

Millions of A\$, 2022



Roughly half of these exports are international spirits that are exported to Australia, and are subsequently re-exported to other countries³












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

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

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

Top spirits and wine exporters by trade value in US\$

Billions of US\$, 2022

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

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

Australian spirits exports are significantly lower than wine exports

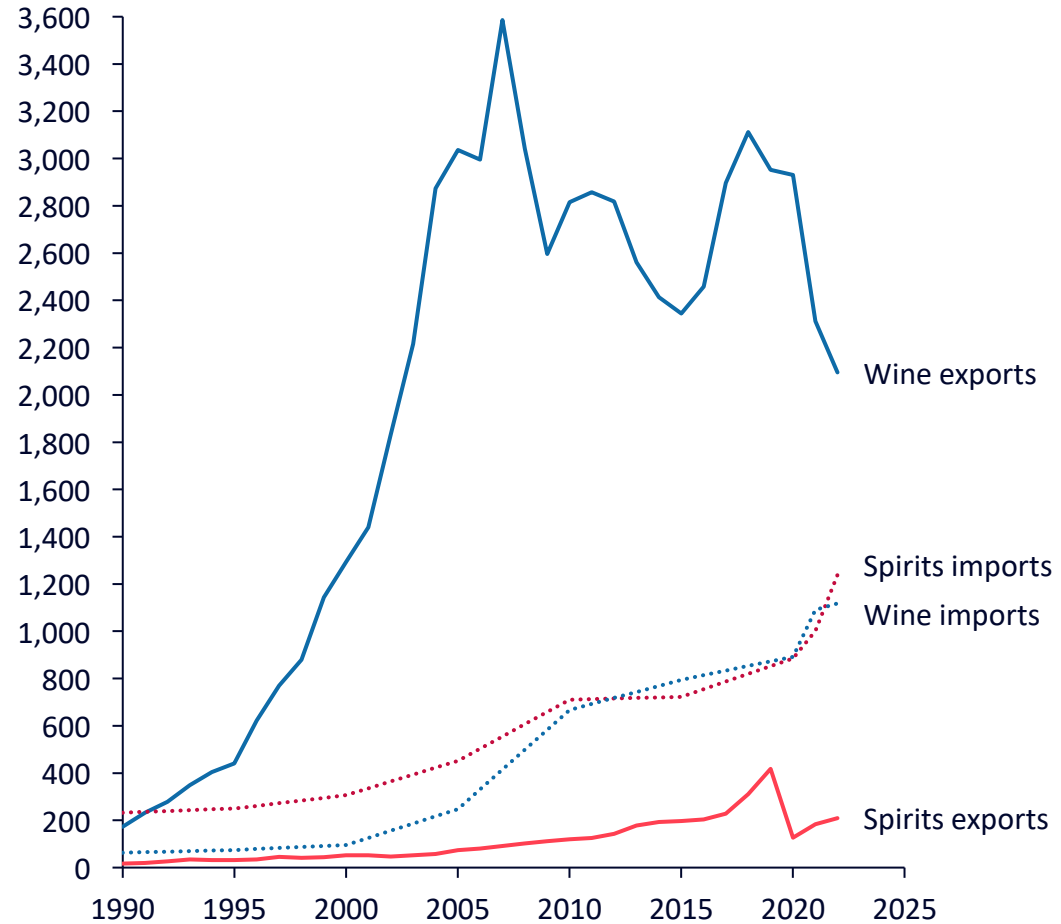
Australia is traditionally a net importer of spirits and a net exporter of wine. This status quo has been retained over the last thirty years.

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

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

Australian wine and spirits exports

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



Export growth since 1990

12x growth
8% CAGR

11.8x
8% CAGR



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No 9

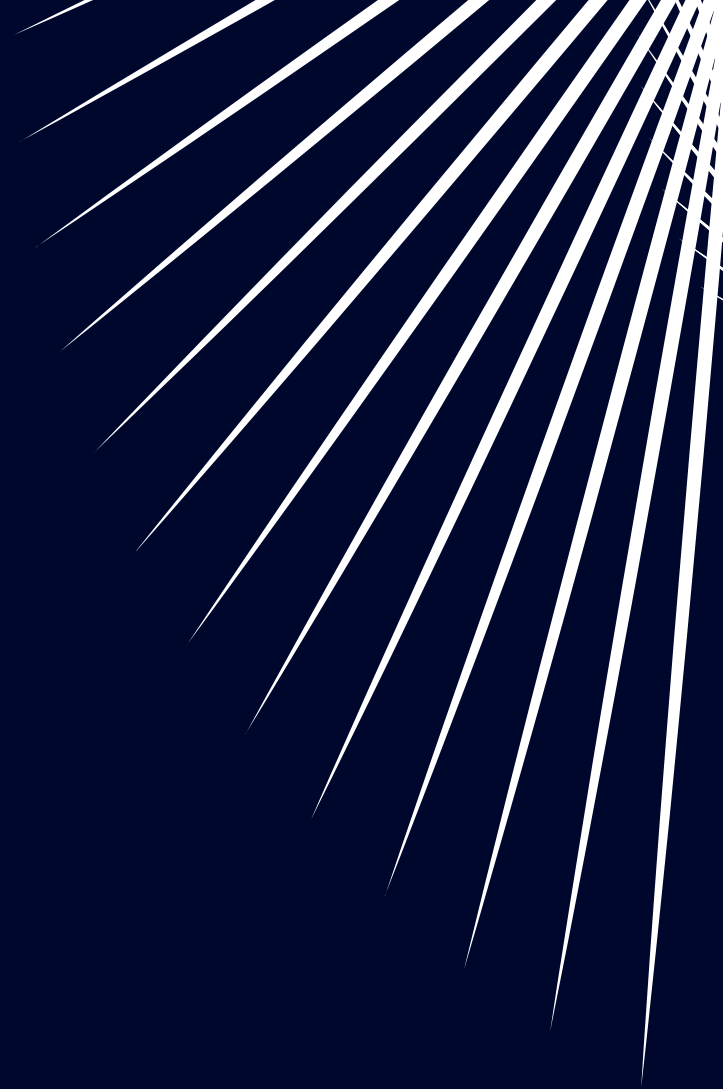


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SECTION 2







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

- 1 Australia's emerging spirits industry supports exports, tourism, regional communities and jobs
- 3 Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its \$1 billion potential
- 4 The Government can help unlock the potential of the spirits industry to capture this \$1 billion export opportunity
- 5 Appendix



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

Key building blocks for developing a world class spirits industry

Levers 	Building blocks 	Australia's performance 	
Demand side 	Access to growing markets	●	<ul style="list-style-type: none"> Proximity to Asia, with large diaspora populations
	Country branding and awareness	●	<ul style="list-style-type: none"> Australia's brand as a country is generally strong with a reputation for quality, safety and compliance, coupled with iconic geographic sites and an attractive lifestyle There is a lack of international awareness of Australia's spirits industry
	Domestic market size	●	<ul style="list-style-type: none"> Strong demand for Australian made produce, including spirits Australia's domestic market is small relative to other jurisdictions and has a history of consuming imported spirits
Supply side 	Local industry	●	<ul style="list-style-type: none"> Strong growth in the number of new distilleries in Australia
	Workforce	●	<ul style="list-style-type: none"> High-quality workforce with transferable knowledge and skills from the beer and wine industries
	Adjacent industries	●	<ul style="list-style-type: none"> Well-established presence of primary materials for production such as barley and sugar cane Complementary services and products such as bottle manufacturing used in the wine industry
	Networks and distributors	●	<ul style="list-style-type: none"> Some networks and distributors to expand into export markets, but the scale of exports for spirits means this is still somewhat limited
	Operational costs	●	<ul style="list-style-type: none"> High costs of inputs (such as labour) and business expenses (such as compliance costs)
	Investment	●	<ul style="list-style-type: none"> Relatively difficult investment environment, both from local and international investors (including large drinks companies), with high excise tax being a key driver
Government 	Alignment with government objectives	●	<ul style="list-style-type: none"> Strong alignment with government objectives including local manufacturing capability, regional jobs, small business, exports and tourism
	Trade support	●	<ul style="list-style-type: none"> Liberalised trade with major markets and ambition to grow trade and investment in the region, noting spirits are excluded from some FTAs and still face high tariffs to countries such as India High levels of trade support built into government programs that can be utilised by the spirits industry
	Regulatory environment	●	<ul style="list-style-type: none"> Excise taxes have created a market structure that favours small distilleries unable to reach proper scale for exporting

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

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

MODELLING AUSTRALIA'S EXPORT POTENTIAL FOR SPIRITS

01



Understand factors that influence spirits trade potential

Factors considered include:

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

02



Model trade potential of countries

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

03



Benchmark Australia against other country's trade potential

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

04



Identify and quantify barriers to reaching trade potential

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

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

Limitations

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

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

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

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

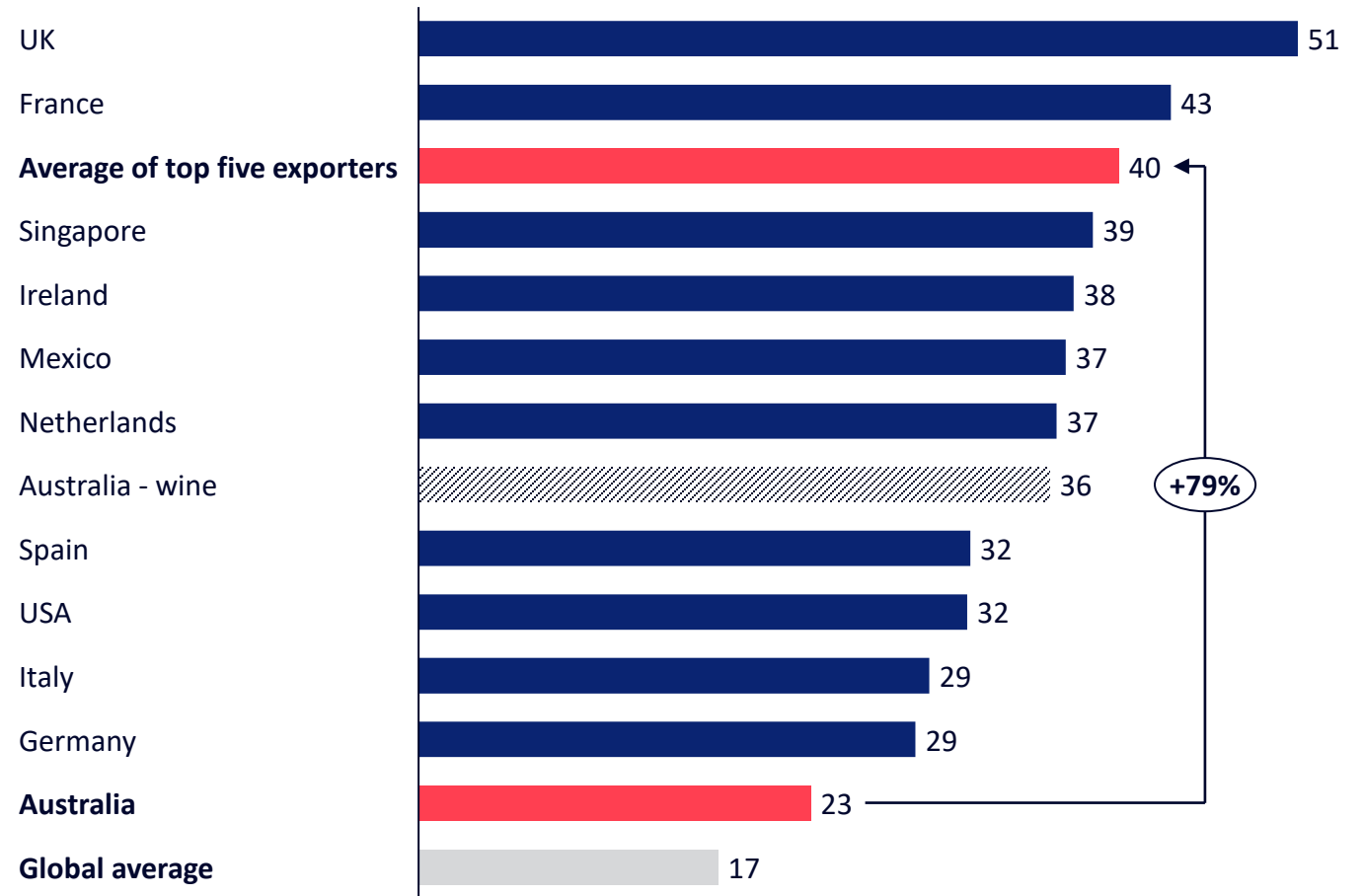
Trade potential is measured by an average trade efficiency score across trade partners for each country.¹ Among top exporters, the UK and France have the most efficient trade relationships for spirits, with an average score of 51 and 43 points, respectively.

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

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

Countries spirits exports performance, top exporting countries and Australia

Score out of 100, based on trade data between 2018-2021¹



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

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

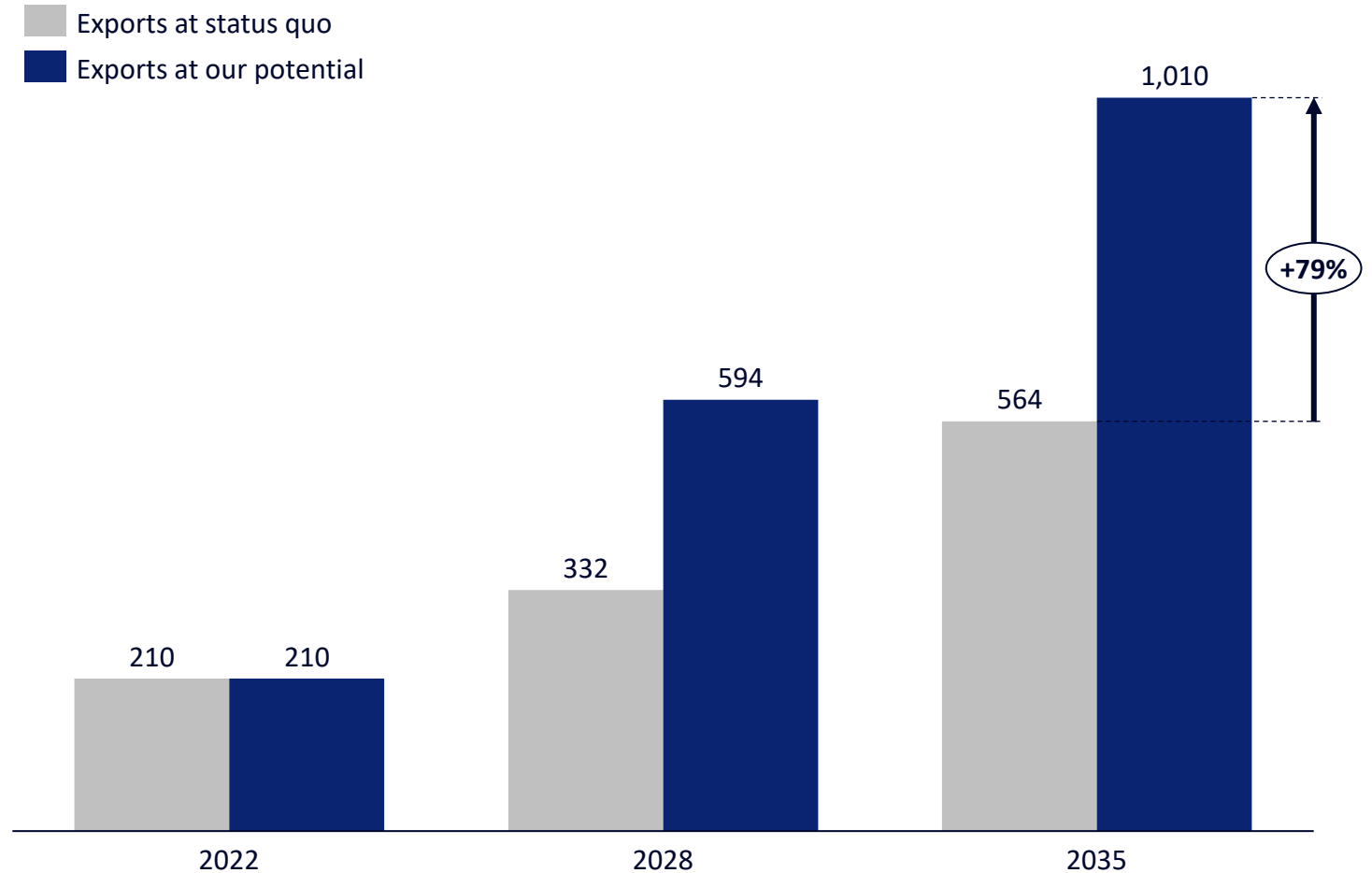
If Australia can meet its export potential, exporting as efficiently as the UK, France, Singapore, Ireland and Mexico, then annual exports could reach \$1b by 2035. This uplift in export performance involves uplifting exports with our current partners and developing exports with new partners to unlock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

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

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

Australian spirits exports to 2035

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

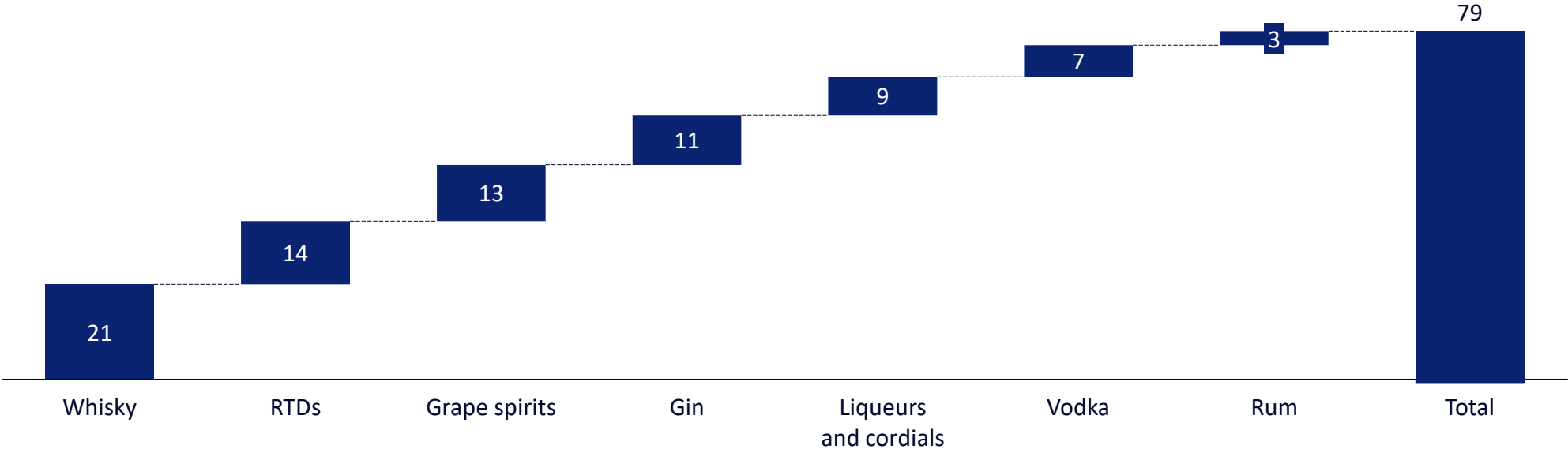


Notes: (1) UN Comtrade (2022). See appendix for further detail.
Source: Mandala analysis.

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

Contribution to uplift by spirit based on current export volumes

Share of total uplift, by type of spirit¹



Top existing partners ²	Whisky	RTDs	Grape spirits	Gin	Liqueurs and cordials	Vodka	Rum
	USA, China, UK	New Zealand, China, France	USA, China, Vietnam	New Zealand, Singapore, USA	China, USA, New Zealand	New Zealand, Thailand, Fiji	New Zealand, PNG

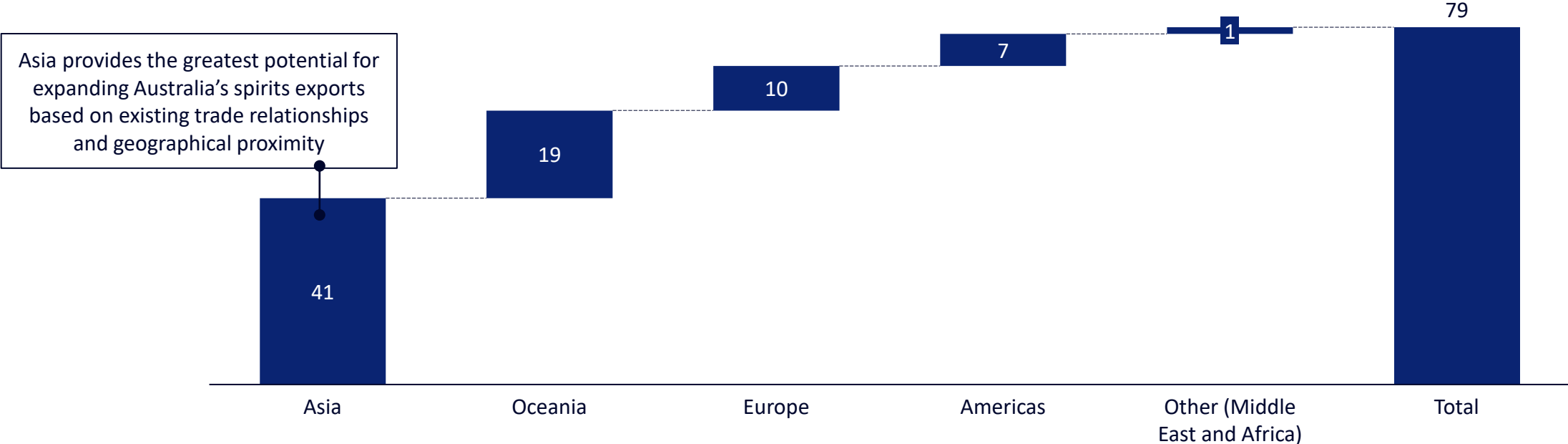
The USA is one of the world’s biggest markets for whisky. In 2022 Australia was the 12th biggest nation importing whisky into the USA.

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

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

Contribution to uplift by region based on current export volumes

Share of total uplift, by type of spirit¹



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

Potential partners with largest uplift¹

India, Sri Lanka and S.E. Asia (e.g., Indonesia, Philippines)

New Zealand, Fiji

Germany, Ireland, Switzerland

Canada, Chile, Brazil

UAE, Turkey

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

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

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

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

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

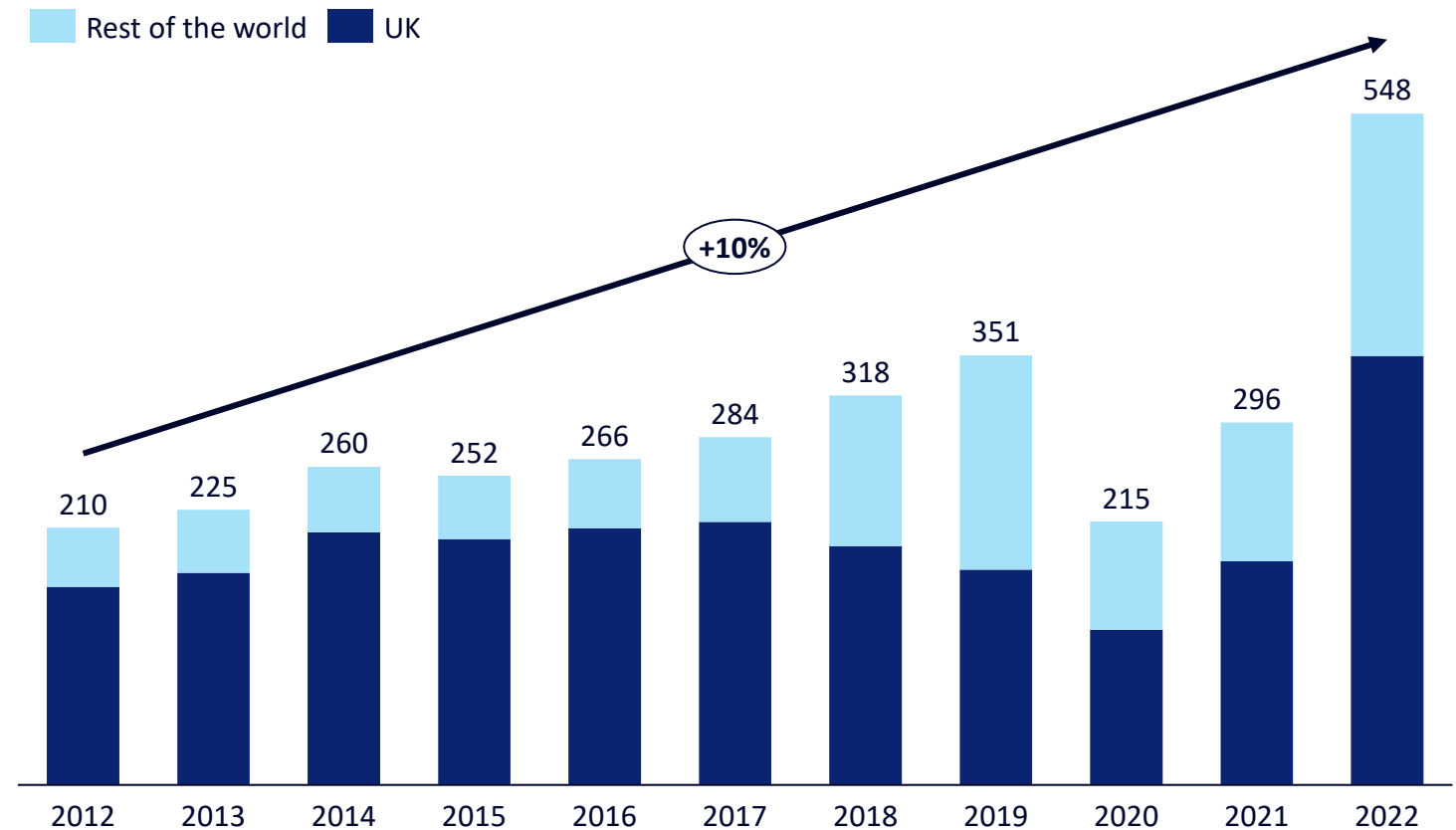
By 2030, there will be 150 million Indians who are of legal drinking age, accounting for 25% of the global increase. India's middle class is expected to reach 700 million by 2030. These changes accompany changing trends in alcohol consumption, with increases in social occasions involving drinking.

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

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

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

India spirits imports
Millions of US\$, 2012-2022



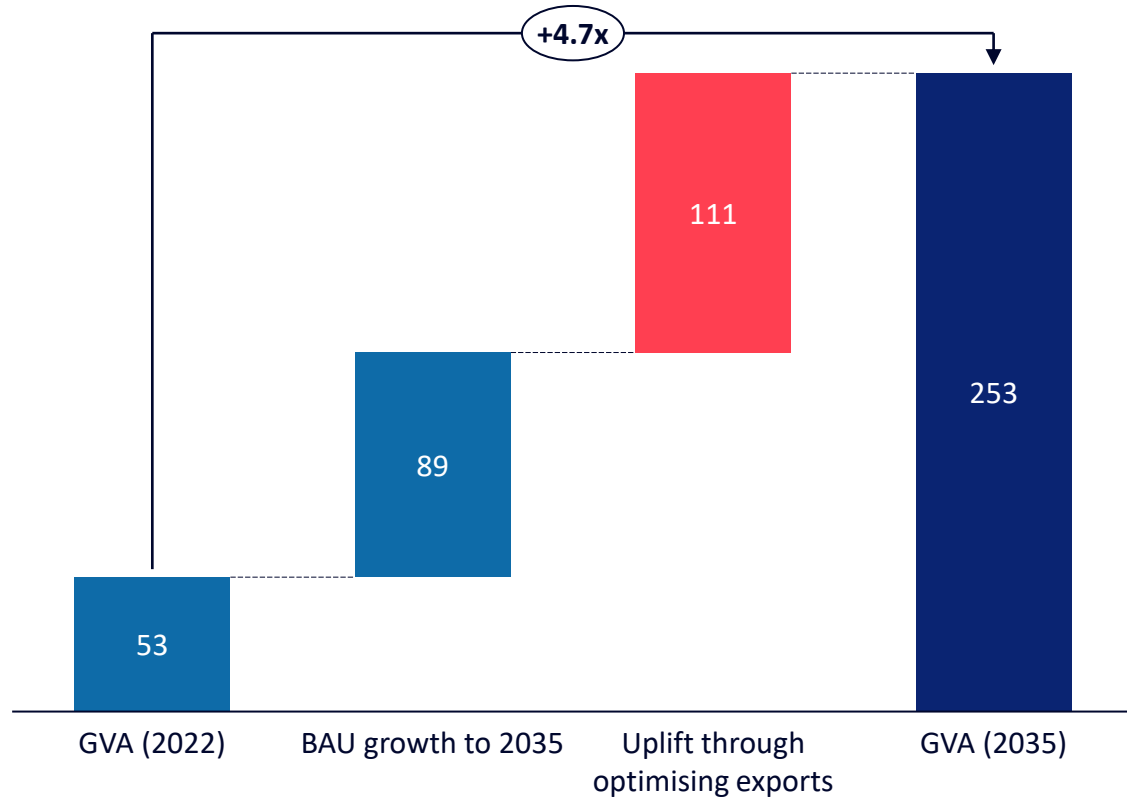
Australia currently exports low volumes of spirits to India. Australian spirits imports have never exceeded 0.15% of total spirits imports into India in the last decade. Modelling indicates that Australian spirits exports to India could grow to 65 times its current levels, if Australia was to realise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

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

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

Direct economic contribution from spirits exports

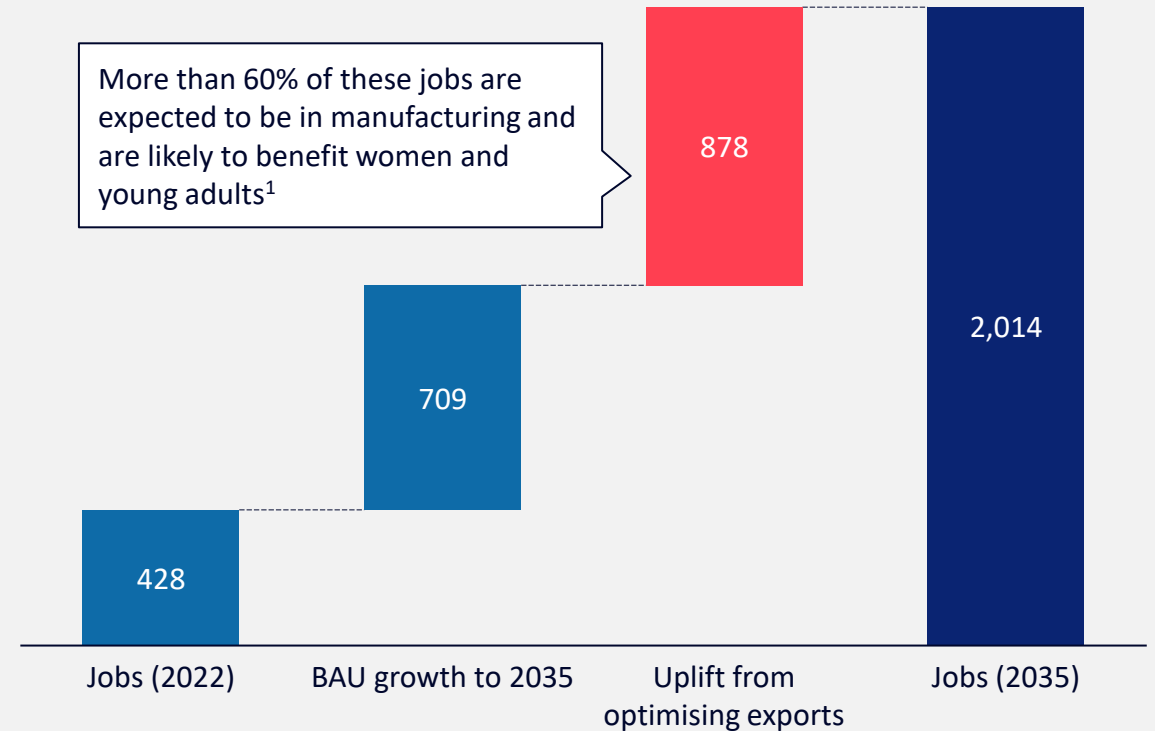
Millions of A\$



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

FTE jobs directly supported by spirits exports

Number of jobs



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

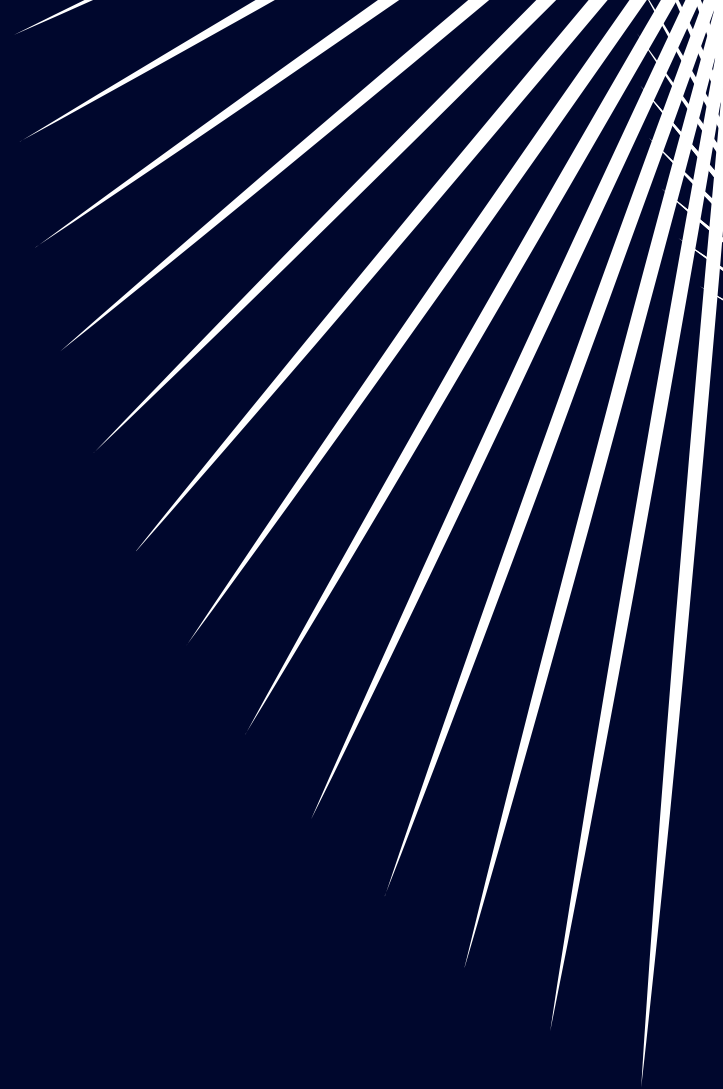
Sources: Mandala analysis, Deloitte industry report.



SECTION 3

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

- 1 Australia's emerging spirits industry supports exports, tourism, regional communities and jobs
- 2 The Australian spirits industry has the potential to be a \$1 billion export industry by 2035
- 4 The Government can help unlock the potential of the spirits industry to capture this \$1 billion export opportunity
- 5 Appendix















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

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

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

Statistically significant factors influencing export potential

		 Impact	 Description
1	Cost of alcohol and excise tax 		Countries with higher alcohol prices, which includes excise taxes, were less likely to meet their trade potential
2	Country branding 		Countries with stronger brands were more likely to meet their trade potential
3	Trade support 		Countries with more FTAs were more likely to meet their trade potential
	Favourable trading conditions 		Countries with more efficient trade systems (such as paperwork, computer systems) were more likely to meet their trade potential
4	Ease of doing business³ 		Countries with better systems and favourable business environments were more likely to meet their trade potential ¹

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

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

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

As of February 2024, excise tax for a standard drink of spirits was \$1.29, three times higher than draught beer at \$0.43, and 5.3 times higher than wine at \$0.24.¹

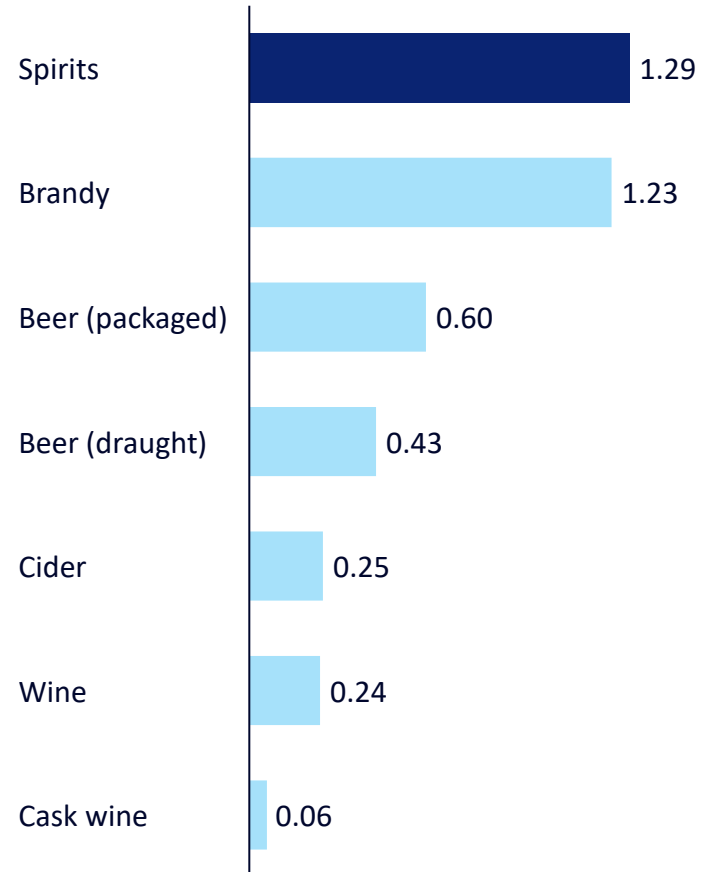
This has significant implications on the competitiveness of spirits relative to other beverage types domestically and makes it challenging for distilleries to scale and attract investment. A survey found 59% of distillers see excise tax as a key barrier to industry growth. A third of respondents said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

Australia's excise tax on spirits is significantly higher than comparable countries such as Ireland, New Zealand, the UK, Canada, the USA and Japan. As of February 2024, Australia's excise tax on a litre of alcohol was \$101.85, compared to Ireland and the UK at \$70.50 and \$61.29 respectively.

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

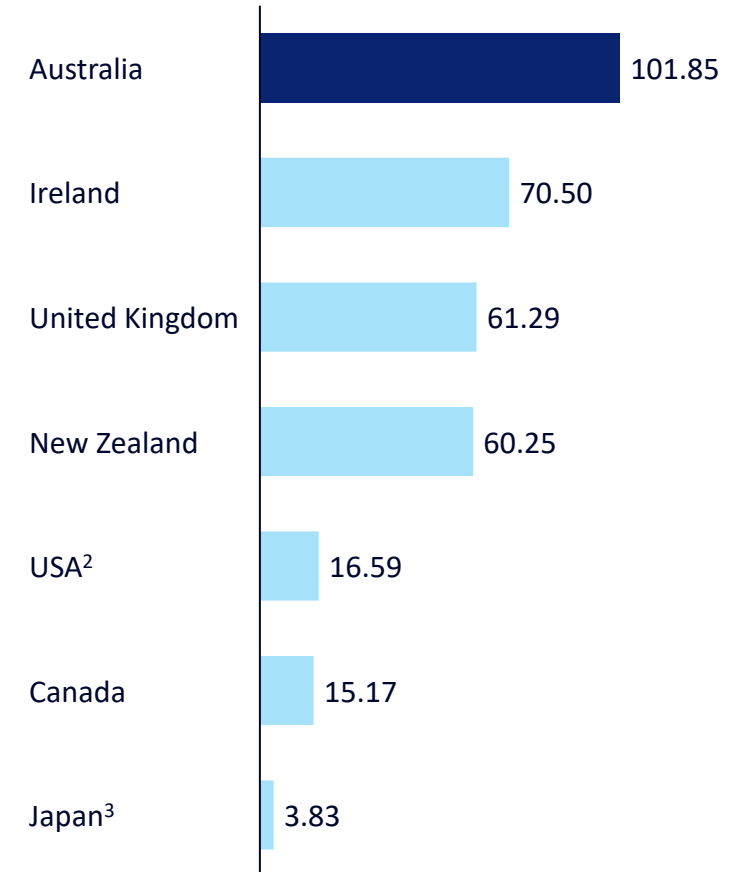
Excise tax relative to other alcoholic beverages

\$ tax per standard drink from 5 February 2024¹



Excise tax for comparable markets

A\$, per litre of alcohol from 5 February 2024



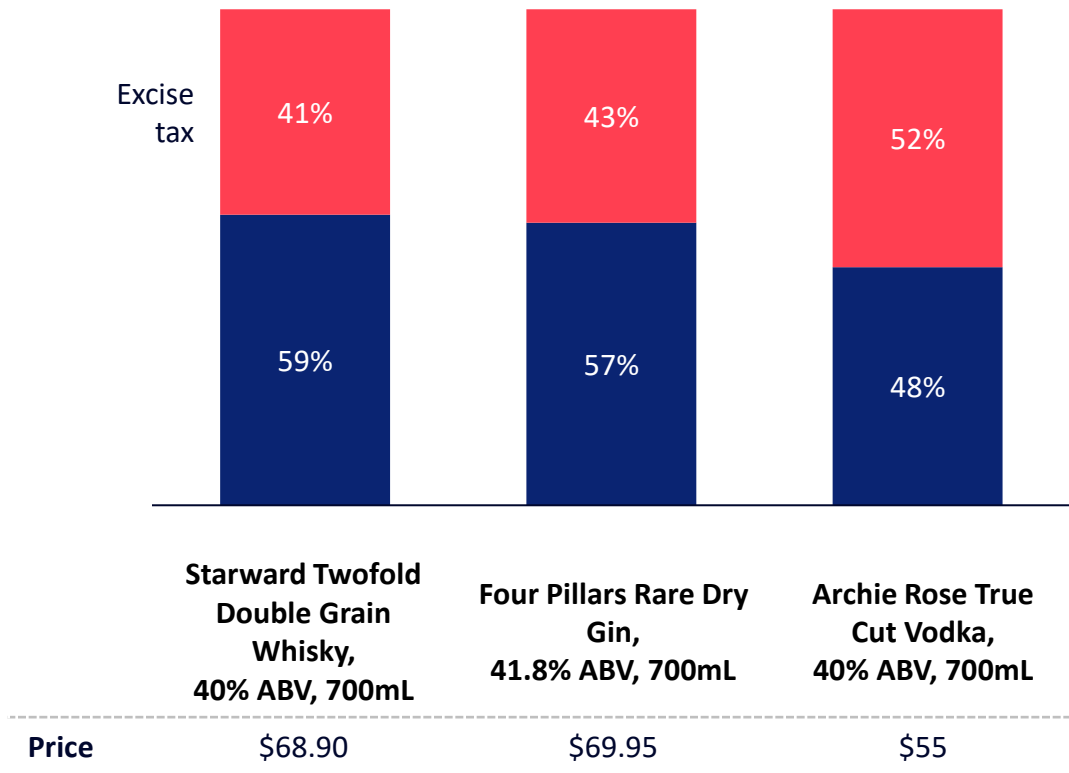
Notes: (1) Berri Estate 5L Dry Red cask wine, Wolf Blass Yellow Label Chardonnay wine, Somersby apple cider bottle, VB full strength draught beer, VS full strength packaged beer, St Agnes V.S brandy 700mL, Patient Wolf Melbourne dry gin. (2) Includes tax at federal level only; state taxes may add to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

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

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

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

Excise as % of price

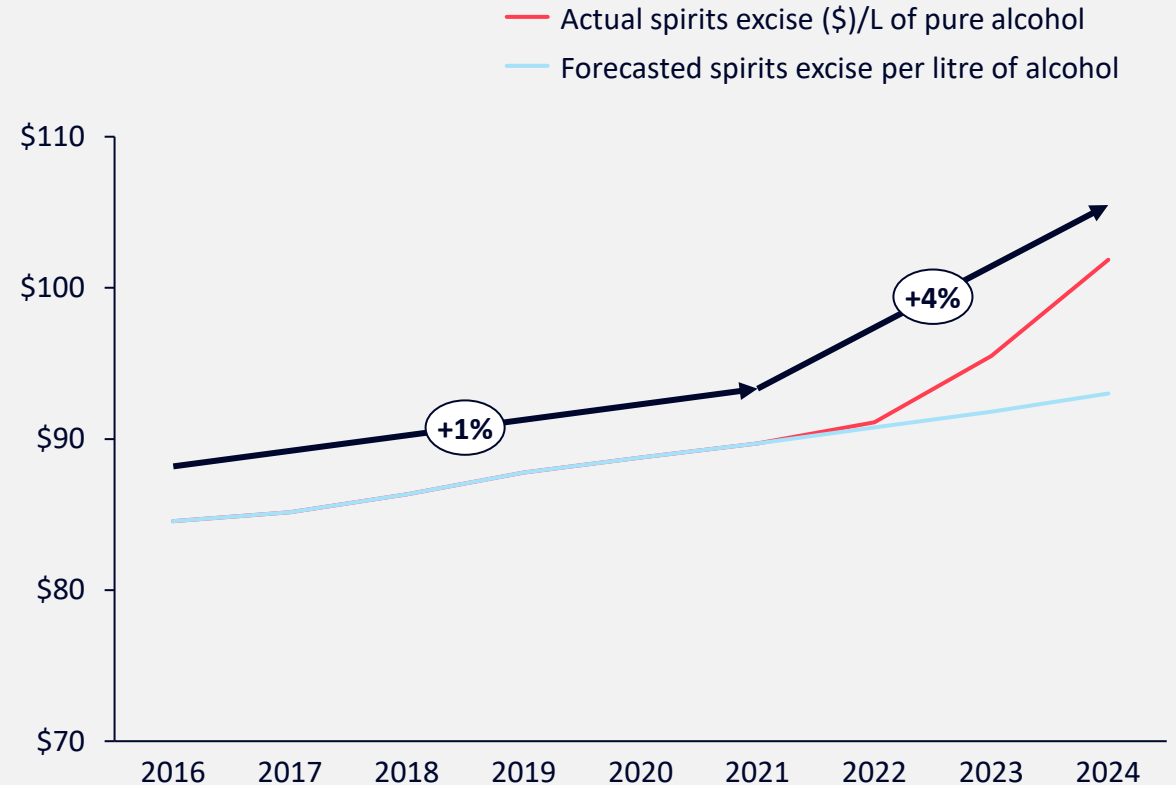


Notes: Based on excise duty rates as of 5 February 2024 of 101.85c per litre.
Sources: ATO (2024) Excise duty rates on alcohol, desktop research, Mandala analysis.

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

Forecasted vs. actual excise tax for spirits

August 2015 to February 2024



Sources: ADA, Mandala analysis.

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

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

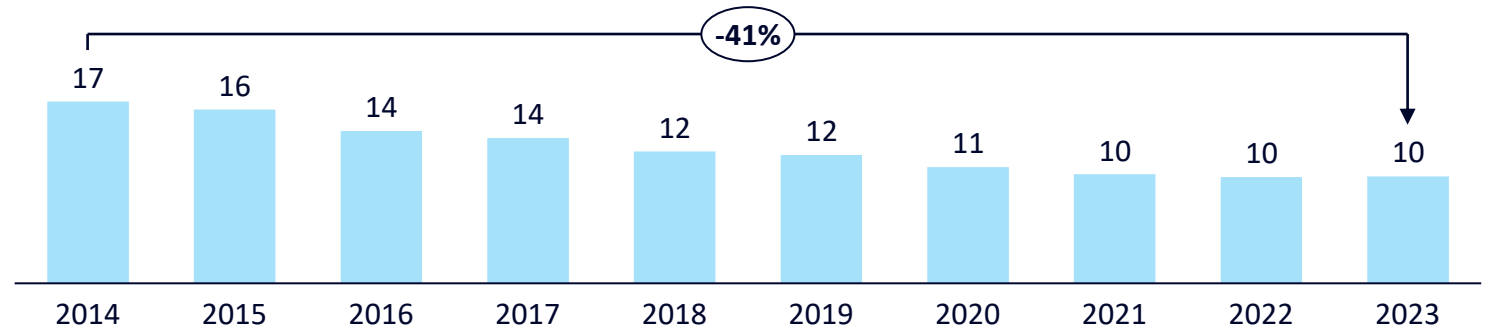
Between 2014 and 2023, the average headcount for distilleries declined from 17 to 10. In FY22, almost half of distillers had an annual revenue under \$350,000.

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

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

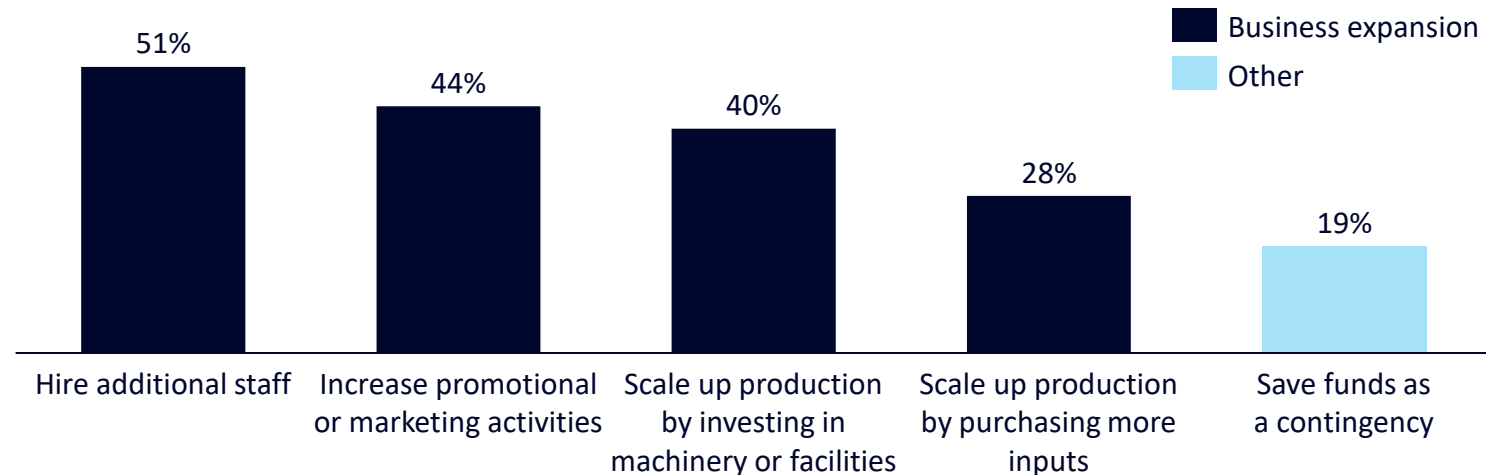
Average headcount per spirits manufacturer

Headcount, Australia, 2014-2023



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

% of businesses, n=191, Australia, 2023



Australia has limited spirits exports despite having a strong national brand

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

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

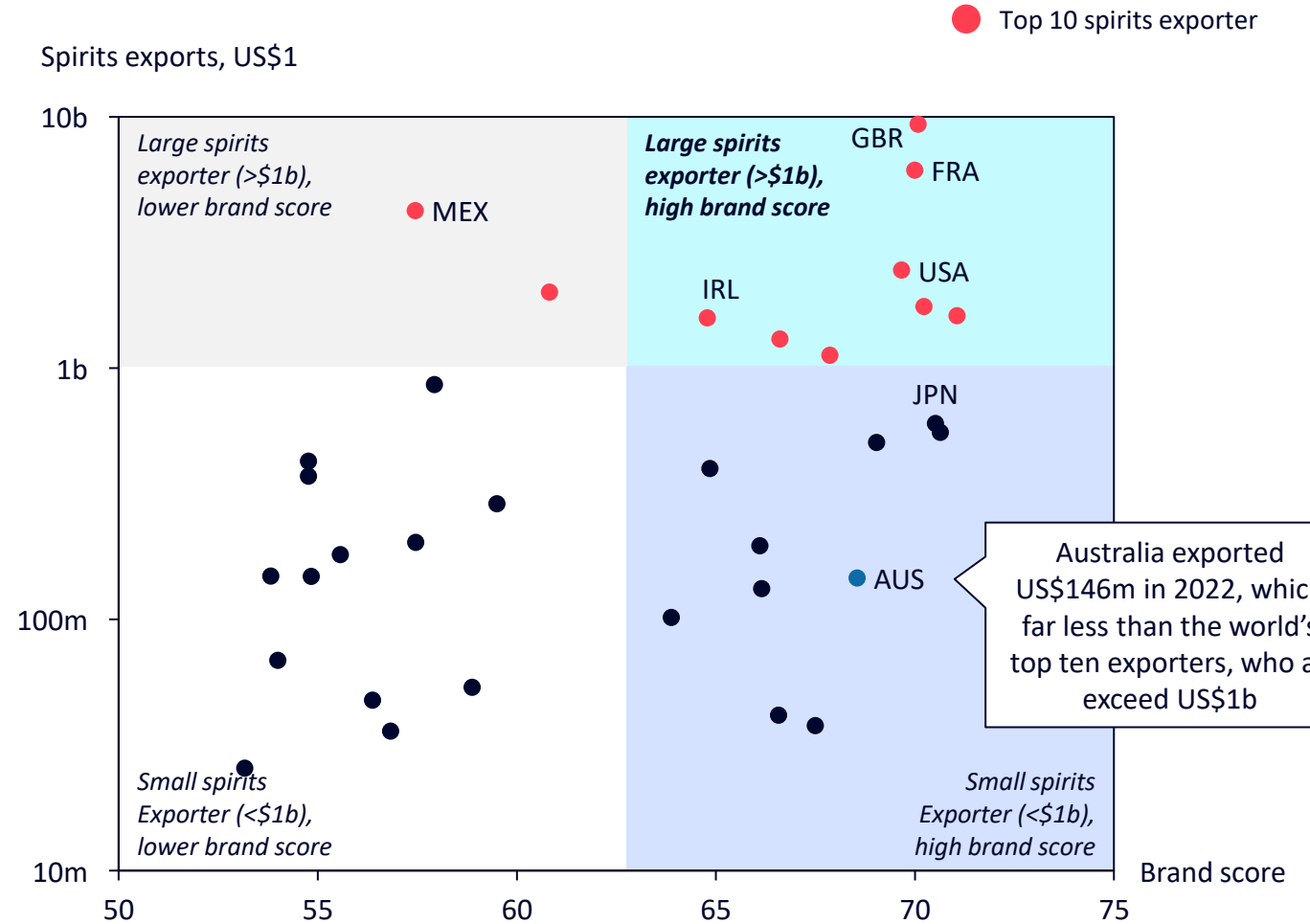
Australia has a strong national brand but is not a large spirits exporter. While Australia has the right foundations to grow its exports through its country brand, these assets are not being effectively utilised. One challenge raised by distillers looking to export was that there are significant investment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

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

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

National brand score and value of spirits exported

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



Notes: (1) Only includes countries who export over \$25m, Norris (2020) *Isn't it iconic? Brand iconicity and distilled spirits: An exploratory study.*

Sources: UN Comtrade (2022) *Trade Data*, uses annual exports of countries in 2022 and excludes those exporting less than \$1m.

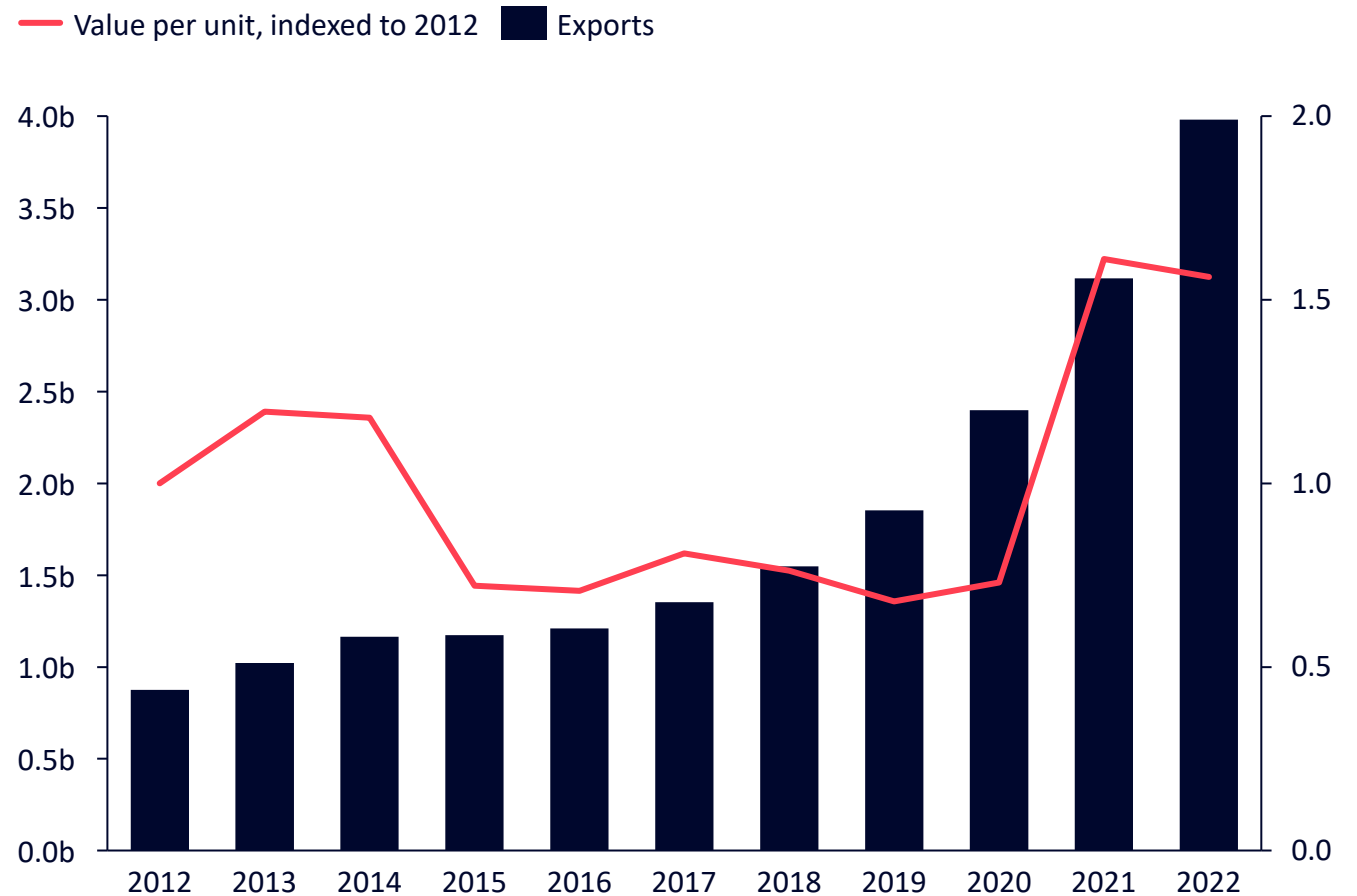
Mexico’s tequila exports have grown in volume and value with branding, trade support and investment key factors

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

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

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

Mexico tequila export volume and value per unit over the last decade
Millions of US\$, Index (value per unit, base = 2012), Mexico, 2012-2022¹



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

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

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

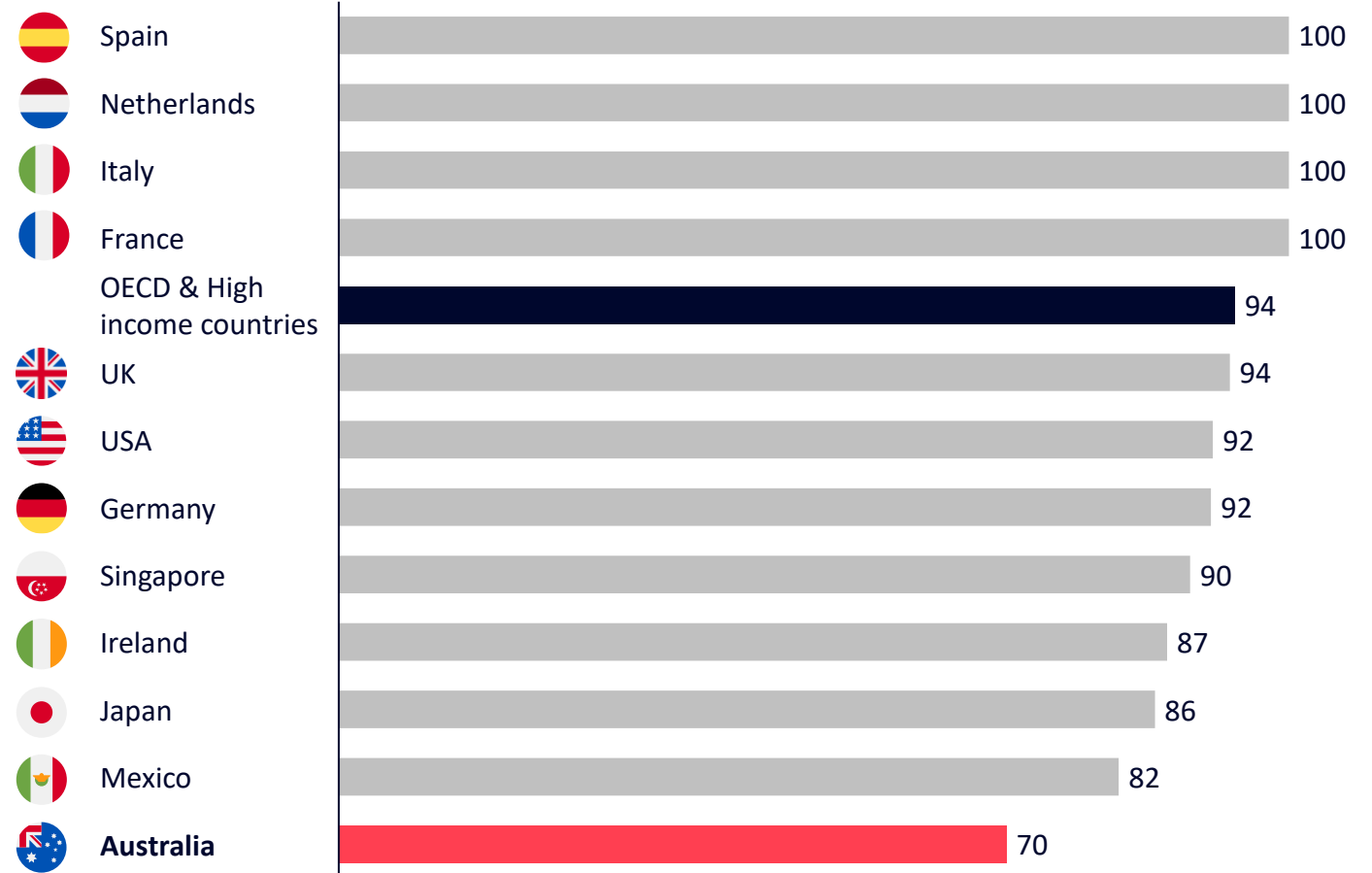
Australia is a laggard in this regard. The World Bank’s ‘Trading Across Borders’ measure provides a composite measure to compare the conduciveness of regulations for trade as well as cost to export and import. Australia ranks far below the rest of the OECD and other top spirits exporters on this measure.

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

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

Trading across border scores

Trading across border scores, top spirits exporters and OECD, 2019¹



Notes: (1) The trading across borders score is based on a country’s largest exports with its largest trading partner and accounts for the time and cost it takes to export and comply with documentary requirements. Many of these high performing countries are located in the EU, trade with nearby countries and face low costs of export compliance given their EU membership.

Sources: Parliament of Australia (2020) *Opportunities and challenges for Australia’s exports*, World Bank (2019) *Trading across Borders*.

Australia has a supportive environment when it comes to the ease of doing business, but it still has room to improve

The World Bank's Ease of doing business index measures regulatory supportiveness to do business in a country. This index includes several dimensions, such as starting a business, enforcing contracts, getting credit and paying taxes.

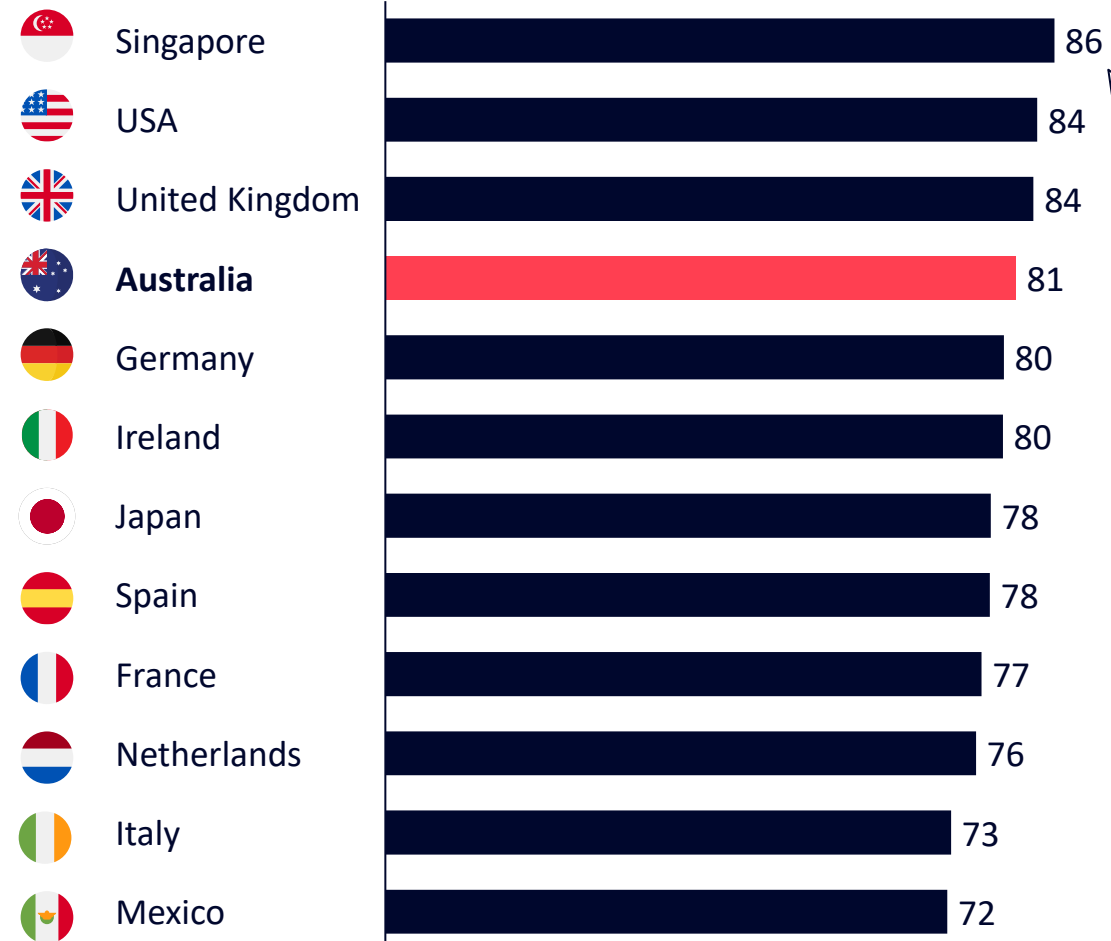
By this measure, Australia ranks well, placing fourth compared to other top spirits exporters. Australia scores particularly well in getting credit, enforcing contracts and resolving insolvency.

Nevertheless, Australia still has room to improve. Industry consultations identified several areas for improvement, including:

- Complex and lengthy compliance processes, especially in relation to building and zoning, work health and safety;
- Limited support for business skills development, such as pitching to investors to seek investment or networking to expand businesses, especially overseas; and
- Limited competition in the upstream business ecosystem of distributors and retailers which creates challenges producers to expand their business.

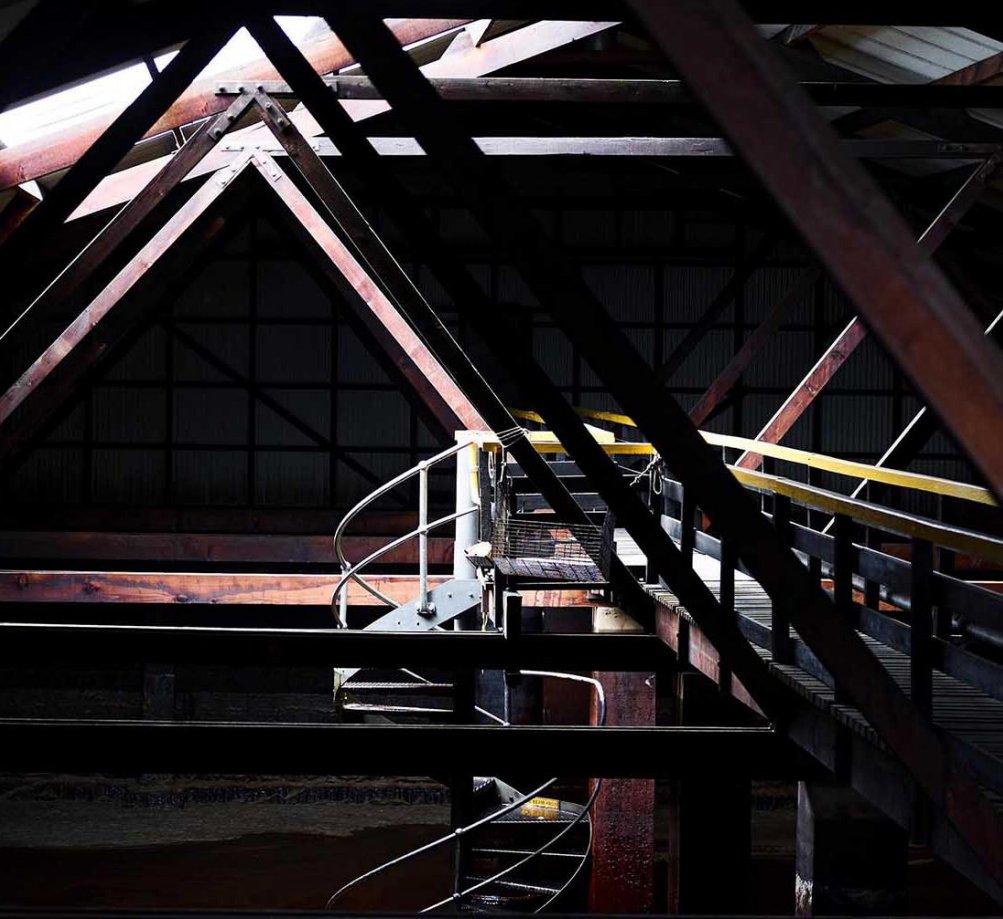
Ease of doing business scores by country

Ease of doing business scores, top spirits exporters, 2019



Despite not being a large producer, Singapore is a key exporter due to its status as a transport, business and financial hub.

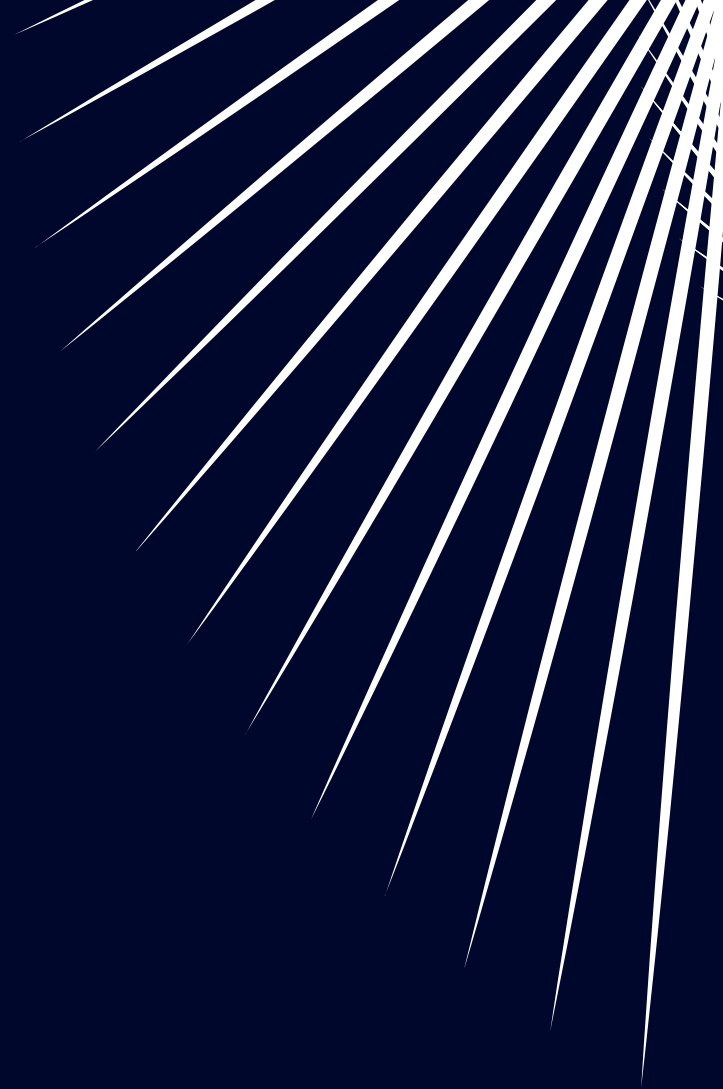
Singapore is known for its highly favourable policies for foreign investment and trade and technological readiness.



SECTION 4

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

- 1 Australia's emerging spirits industry supports exports, tourism, regional communities and jobs
- 2 The Australian spirits industry has the potential to be a \$1 billion export industry by 2035
- 3 Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its \$1 billion potential
- 5 Appendix



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

■ To be delivered through 'Spirits Australia'



Supportive taxation and a proactive industry body has nurtured strong growth in Australian wine exports

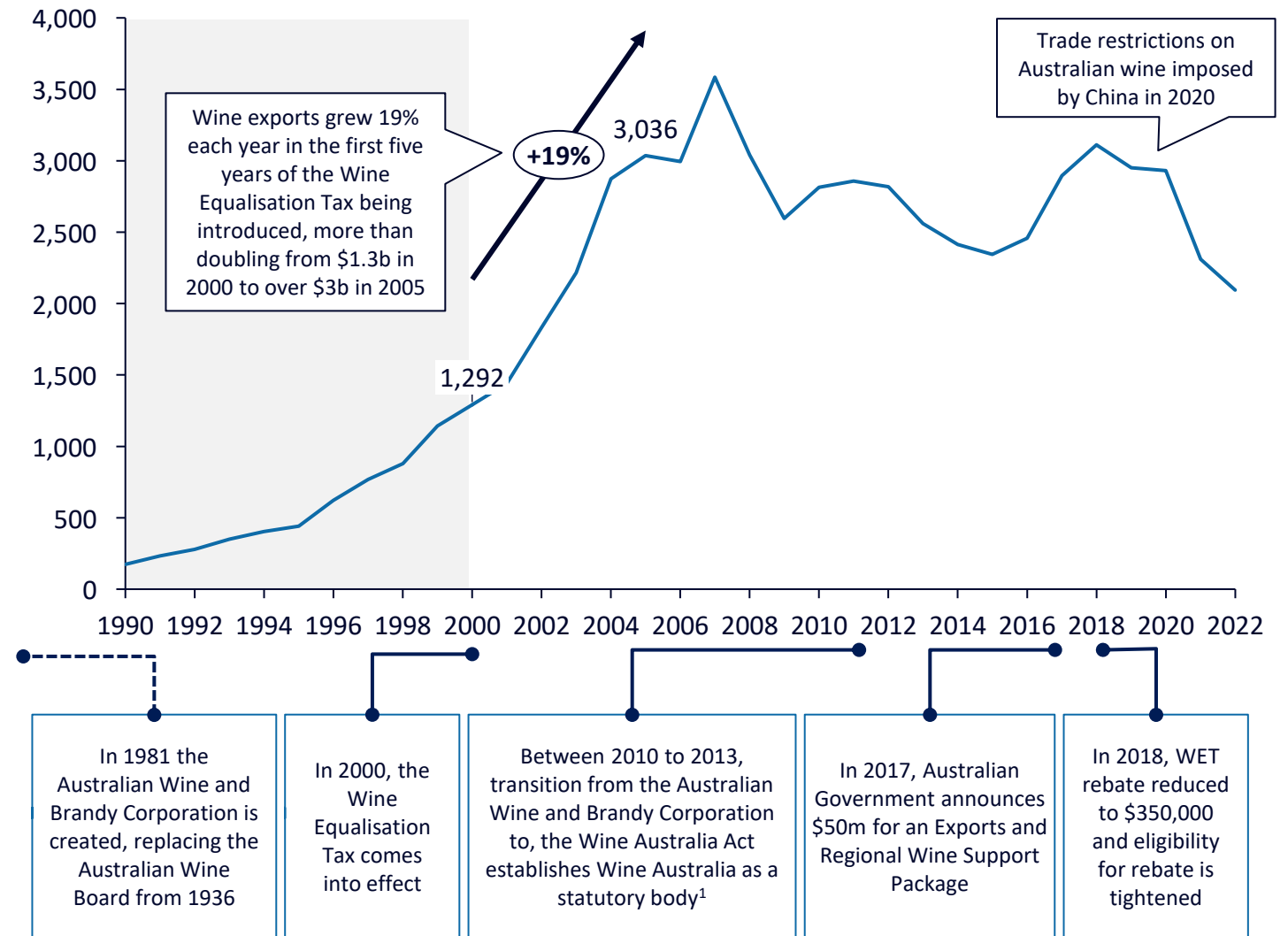
Australian wine exports have grown dramatically since the 1990s, bolstered by favourable policy supports. This includes:

- Favourable tax conditions through the Wine Equalisation Tax (WET) which involves a 29% on the wholesale value of wine. Introduced in July 2000, this tax treatment results in less tax paid for wine compared to other alcoholic beverages in Australia which are taxed on their alcohol content (i.e. a volumetric tax). Additionally, the Federal Government provides rebates to wine producers selling both domestically and internationally of up to \$350,000 annually.
- The development of Wine Australia which is a statutory corporation and is co-funded by industry and Federal Government.¹ The corporation allows for alignment between government and industry and has acted as a backbone for the wine industry's growth domestically and internationally. Wine Australia's objectives include supporting growth in:
 - the wine industry;
 - international wine tourism;
 - exporting of grape products; and
 - promoting the consumption and sale of grape products domestically and internationally.

These supportive industry policies has helped to grow wine exports. Similar initiatives for the spirits industry could help set the industry on a similar path.

Australian wine exports over time

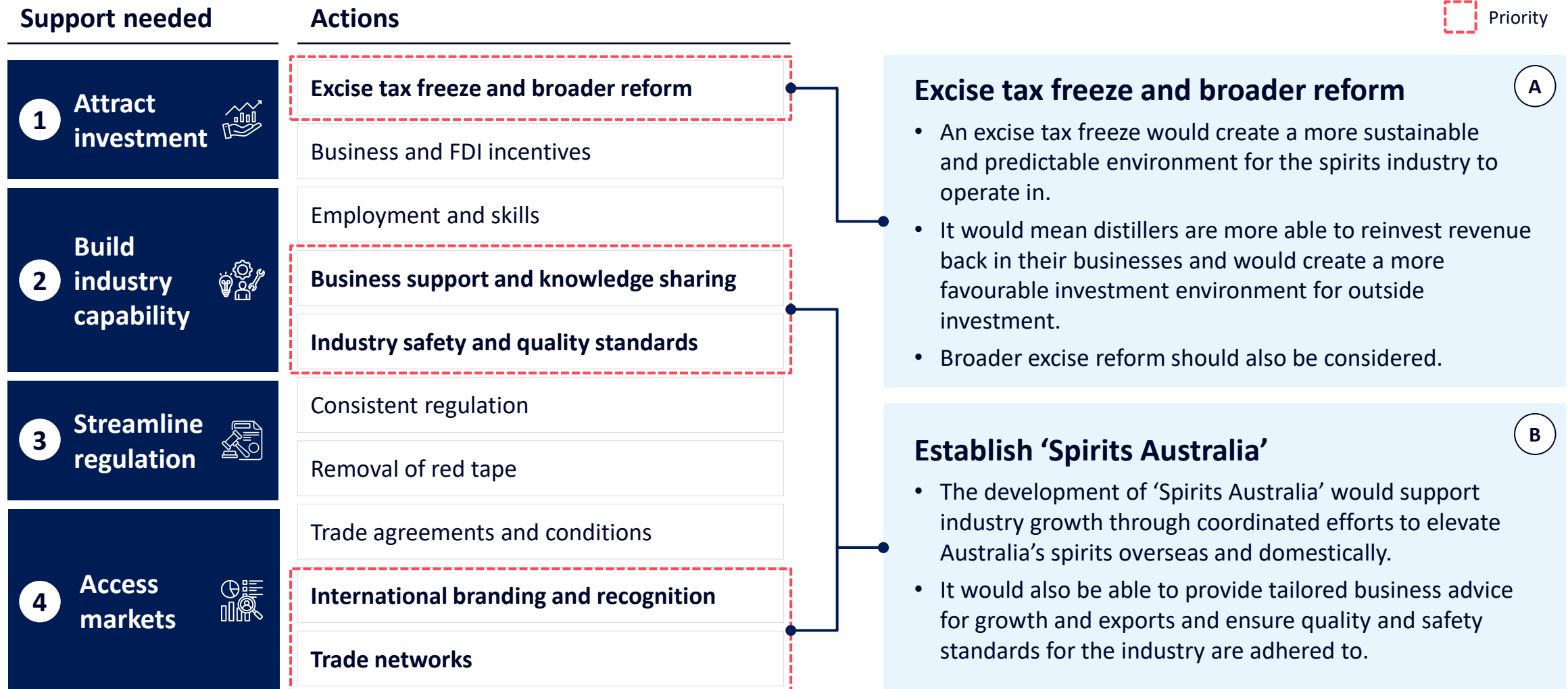
Trade value, millions of A\$, 1990-2022



Notes: (1) This statutory body replaced prior similar bodies such as the Australian Wine Board (1980) and the Australian Wine and Brandy Corporation (1981).

Sources: Average from 1 January 2021 to 1 January 2024, from Grant connect (2024) Grant award published records from.

An excise tax freeze and the creation of a ‘Spirits Australia’ would unlock immediate value for the spirits industry, as has been the case in the wine industry



The UK is the world's top spirit exporter by volume and has kept spirits excise flat for most of the last decade

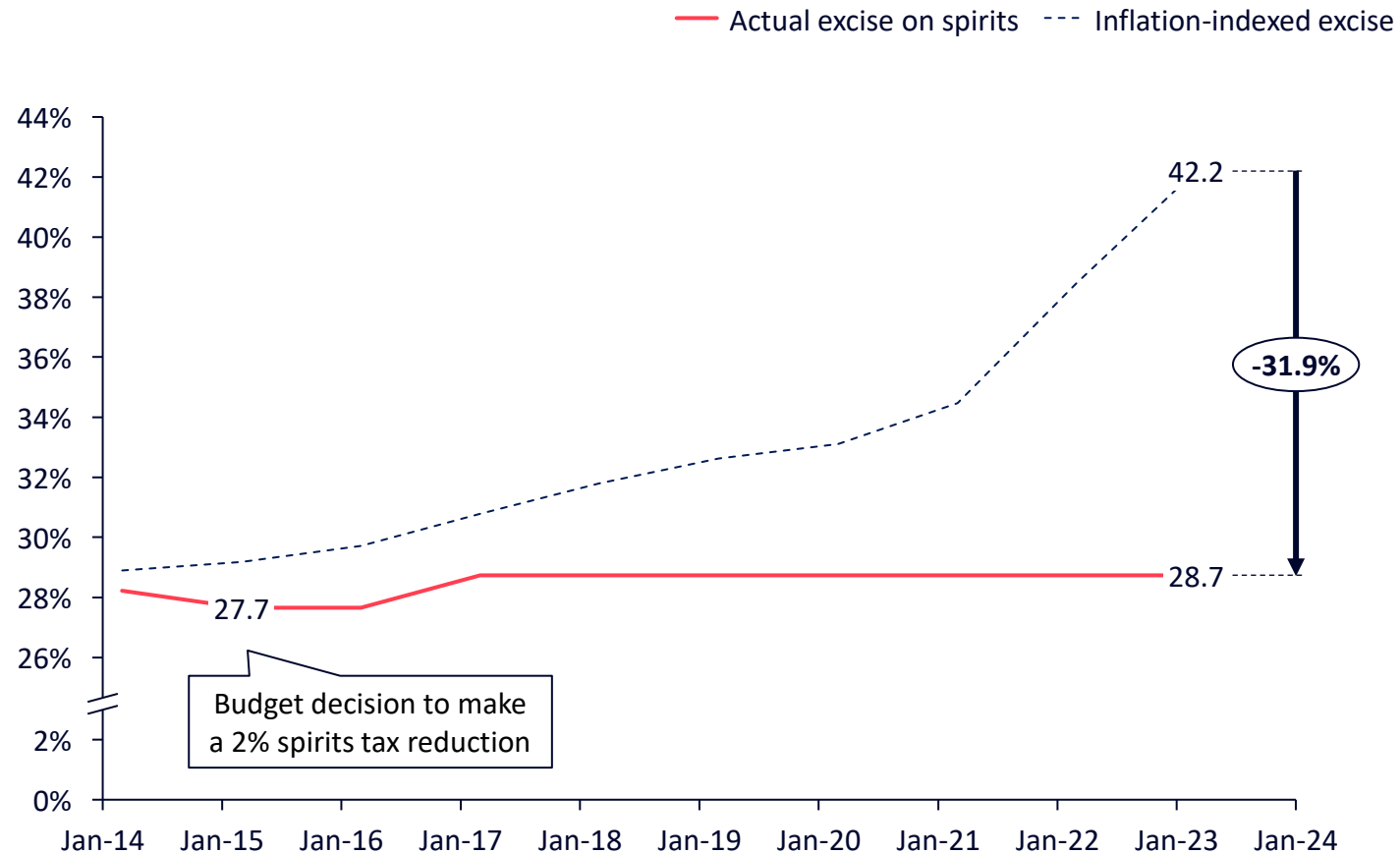
The UK's spirits excise tax has stayed relatively flat over the last decade at £28.70 – much lower than what it would have been if it had followed legislated annual increases to the excise indexed to inflation.

Like Australia, the UK's excise on spirits is indexed to inflation.¹ However, the UK government has put a freeze on scheduled increases between 2014 and 2023 – with an exception for 2015, where the duty was cut by 2%.² Importantly, these freezes had marginal impacts on tax revenue. Actual tax revenue between FY19 and FY23 was, on average, 10% higher than forecasted revenue. Additionally, the UK was consistently the world's biggest spirits exporter by trade value during this time.

A review into the alcohol tax system was pledged in 2019 and 2020 ahead of the UK's general election. This review has subsequently led to a change in the alcohol tax system, which now taxes all alcohol based on their alcohol strength. These changes recently came into force in August 2023, with the impact on the overall market yet to be seen.³

Rate of spirits excise tax in the UK

Excise rate on spirits, %, 2014-24



Notes: (1) Uses Retail Prices Index from the Office of National Statistics (2023) *RPI All Items: Percentage change over 12 months: Jan 1987 = 100*. Spirits are taxed on an ABV basis, for all spirits with an ABV of more than 1.3% the duty is £28.70 per litre of pure alcohol. (2) Spirits and Cocktails Australia (2020) *Pre-budget submission*. (3) House of Commons Library (2023) *The new alcohol duty system*.

Sources: BBC News (2023) *Alcohol duty frozen until next August*, HM Treasury (2021) *The new alcohol duty system: Consultation*, The Spirits Business (2022) *Double-digit duty rise could 'decimate' on-trade*, Wine and Spirit Trade Association (2020) *Budget submission*, UN Comtrade (2022) *Trade Data*.

A freeze on excise tax could follow a similar model to the UK where the industry grew, and tax revenue consistently exceeded forecasts

1 Overview of excise tax freeze and broader reform

An excise tax freeze would involve an immediate pause on further indexations of the rate for a disclosed period of time.

A continuation of indexation could be assessed at the end of index pause to assess whether increases should continue or not.

Australia could take a similar approach to the UK's excise tax freeze on spirits. Similar instances where the Federal Government followed in the UK's footsteps include changes to fuel excise taxes to help address cost-of-living pressures.

Spirits currently contribute the lion's share of alcohol excise tax receipts (58%). The Federal Government's latest budget estimates a \$5.6b receipt from spirits,¹ more than beer (\$2.8b) and wine (\$1.1b) combined.

A review of the alcohol tax system in the UK has led to recent changes in how tax is paid across alcoholic beverages and could be an example for Australia to follow.

2 Implications

Government taxation

Evidence from the UK shows that there may in fact be positive tax implications from an excise tax freeze. Actual tax revenue over the last five years was, on average, 10% higher than forecasted revenue.²

Implications for businesses

A freeze in the excise tax would allow businesses to reinvest and grow their business as well as help to attract outside investment into the sector.

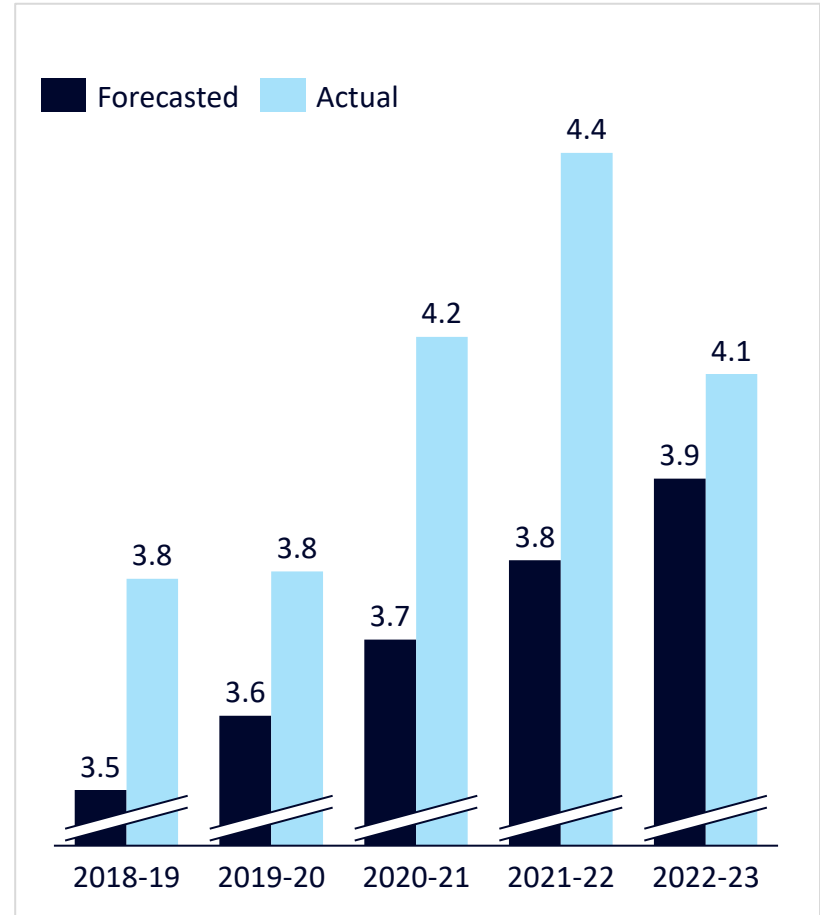
If there was to be a pause in excise tax indexation, 51% of businesses said they would hire more staff, 44% would increase marketing, 40% would invest in machinery or facilities to scale production and 28% said they would purchase more inputs to scale production.

A freeze on excise tax would also provide more predictable policy environment and may encourage more outside investment, including FDI. Currently only 3% of distillers receive FDI.



Excise tax freeze budget impacts in the UK

£ billion, actual vs. forecasted



Notes: (1) Inclusive of non-glass spirits or RTDs. (2) Compared against the UK's November 2017 forecast which provided a forecast for 2016-17 to 2022-23.
 Sources: Deloitte industry survey, Parliamentary Budget Office (2022) *Fuel taxation in Australia*, House of Commons Library (2023) *The new alcohol duty system*, Office for Budget Responsibility (2024) *Historical official forecast database*, Australian Government (2023) *Mid-Year Economic and Fiscal Outlook 2023-24*.

The world's most exported spirit, Scotch whisky, has benefitted from considerable foreign investment

Scotch whisky is the world's most exported spirit and fastest-growing luxury investment. Its exports have grown 31% each year from 2018 to 2022. Almost 90% of all Scotch Whisky produced is exported, and it represents 2% of all of the UK's goods exports.¹

Over the last decade, Scotch whisky distilleries are increasingly foreign-owned. In 2009, only half of these distilleries were foreign owned. However, this has grown to two-thirds by 2021.² This follows a longstanding trend of increased foreign ownership in Scottish whisky distilleries since the 1900s.³

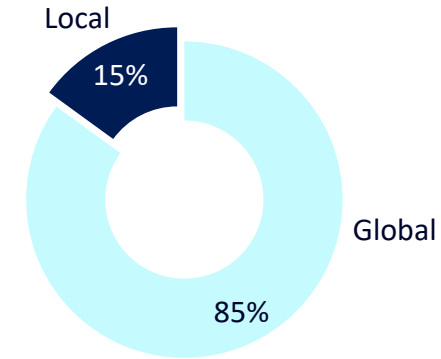
The spirits industry in Scotland is one example of an industry which has captured foreign direct investment from global companies. Foreign direct investment has had outsized effects in Scotland's economy. In manufacturing, for example, foreign owned businesses outside of Scotland and the UK paid their employees 62% more on average.⁴

While non-Scottish businesses only account for 3% of businesses in Scotland they account for:

- 77% of Scottish exports with 86% of Scotland's top 100 exporters being foreign or UK-owned
- 34% of employment; and
- 64% of business R&D spending.

Foreign and local ownership of Scottish distilleries

% of total, 2023⁵



Foreign investment in Scottish distilleries has enabled expansion of...



Production facilities

Since being acquired by the global luxury brand LVMH, Ardbeg Distillery has doubled its production capacity



Distribution to global markets

Bladnoch Distillery's purchase by an Australian investor has revived it from bankruptcy to expand distribution to 60 global markets



Hospitality and tourism facilities

Diageo's £185m investment into Johnnie Walker included building a tourism centre that welcomes 350,000 people annually

Notes: (1) Scotch Whisky Association (2020) *Written evidence by the Scotch Whisky Association*, (2) The Herald (2021) *Who owns Scotland's whisky revealed as nearly 70% owned by non-Scots firms*; (3) McKendrick and Hannan (2014) *Oppositional Identities and Resource Partitioning: Distillery ownership in Scotch Whisky, 1826-2009*, Scottish Government (2022) *Shaping Scotland's economy: inward investment plan*. (5) Excludes distilleries under construction and those under unknown ownership.

Sources: Scotch Whisky Association (2024) *Scotch Whisky's Economic Impact 2022*, Desktop research, Mandala analysis.

The development of 'Spirits Australia', similar to Wine Australia, would offer an important backbone for the industry to grow domestically and internationally

OVERVIEW OF SPIRITS AUSTRALIA

Wine Australia has played an important role in growing the Australian wine industry into what it is today. It has fostered a strong partnership between industry and government to meet common objectives. Establishing a similar body for the spirits industry would allow government and industry to work hand in hand in growing the spirits industry while meeting government objectives. Similar models can also be seen in Japan where the Japan External Trade Organisation has helped spirits grow more than sixfold between 2013 and 2023.

Spirits Australia could be set up as a standalone statutory body and would be dedicated to promoting Australian spirits. Responsibilities for Spirits Australia could include, but are not limited to:

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

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

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

Reinvesting in the spirits industry through Spirits Australia would generate significant value for both the industry and government and help set up a similar growth story to the Australian wine industry. As an example, less than 86 cents from every \$100 of spirits excise tax would be equivalent to Wine Australia's annual revenue in FY23.

Japan's resolution to promote spirits exports has been matched by a 24% increase each year in the last decade

In 2013, Japan exported US\$88.3m of spirits. Over the last decade, this has grown more than sixfold to US\$602.1m in 2023, representing an annual growth rate of 24%.

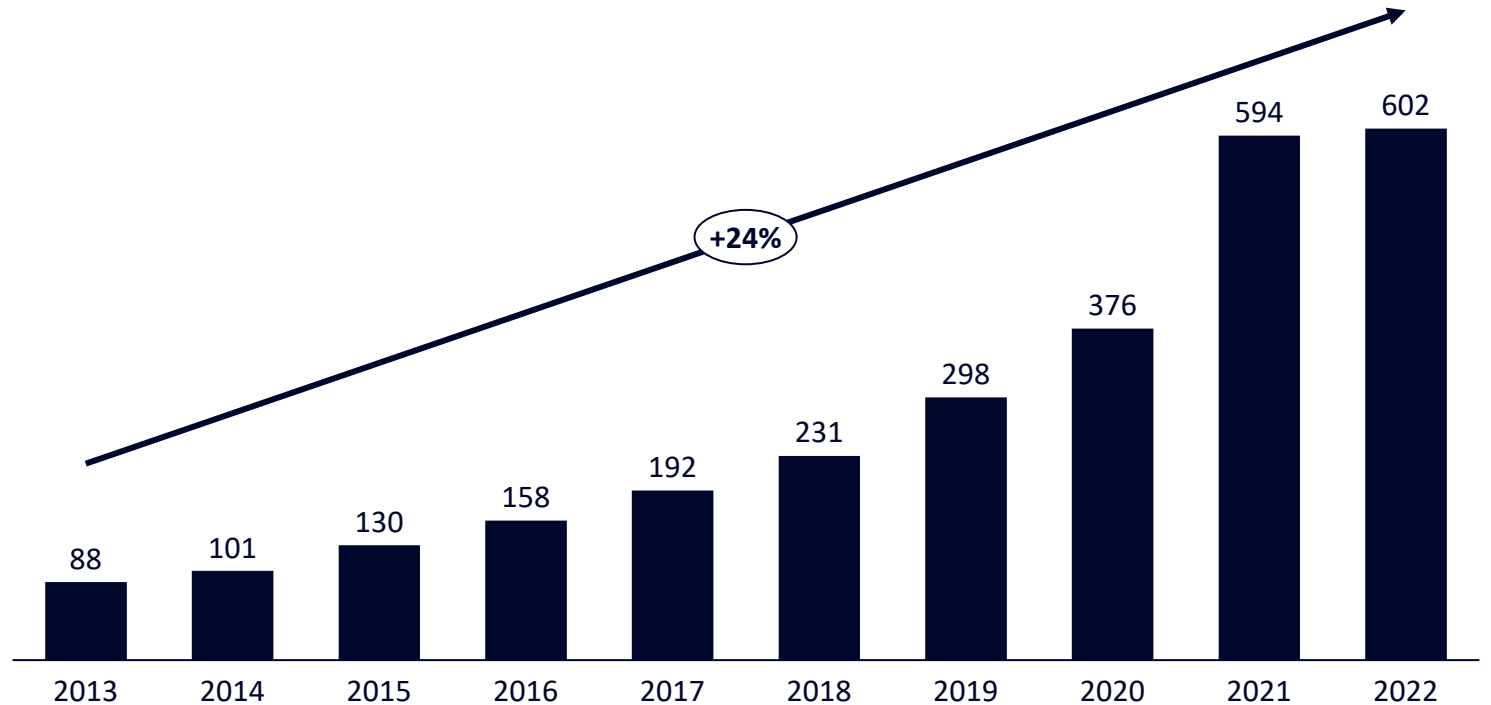
One of the key proponents which helped spur this growth was the Japanese Government's export body, the Japan External Trade Organisation. Founded in 1958 to promote Japanese exports abroad, the organisation's focus on spirits was strengthened by the Japanese Cabinet's 2013 resolution to develop a strong export environment for Japanese spirits.

Since then, government policies to support Japanese spirits exports include:

- designating certain spirits as an export priority, setting clear targets for countries and export volumes,
- supporting cultivation of sales channels, such as exhibiting Japan-produced spirits at large-scale overseas trade exhibitions, subsidising distillers' efforts in developing new markets, and providing market information for distilleries interested in exporting,
- expanding the use of geographical indicators, and supporting the abolition of tariffs and import restrictions on Japanese exports; and,
- supporting education and technological changes to improve safety, quality and innovation in the industry.

Japan spirit exports of last decade

Trade value, US\$, millions



In 2013, the Japanese Cabinet met and resolved to develop a strong export environment for Japanese spirits

The Japan-European Union Economic Partnership Agreement (EPA) is finalised in 2017, with key commitments to protect geographical indication of Japanese shochu and relaxing quantity restrictions

In 2020, the Japanese Government designated three spirits as priority exports; sake, whisky and shochu/awamori. Under this designation, the Japanese Government set out a target number of exports and targets for specific countries for their exports. The government funds activities such as market research to support this

Sources: Cabinet Office (Japan) (2013) *The "Liaison Conference for the Promotion of Exports of Alcoholic Beverages Produced in Japan"*, UN Comtrade (2023) *Trade data*, Japanese National Tax Agency (2023) *National Agency Report 2023: Liquor Administration*, Government of Japan (2018) *The EPA Brings Shochu into the EU*.

By implementing these reforms, the Australian spirits industry has the chance to capture emerging market opportunities while supporting the government's priorities



Emerging Opportunities



Growing markets and demand in regions close to Australia



Changing drink preferences for premium spirits



A burgeoning industry, with strong foundations and a network of local distillers

Australian Spirits Industry



Government Priorities



Manufacturing jobs



Small business



Regional communities



Export opportunities



Tourism

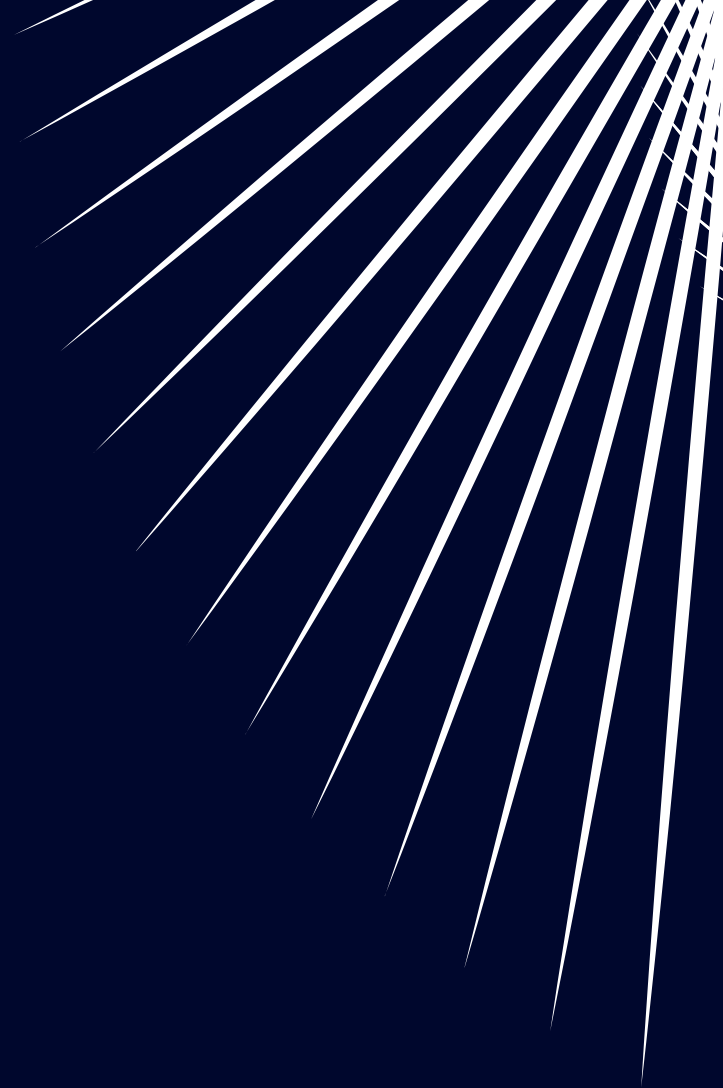


Supporting diversity and young people

SECTION 5

Appendix

- 1 Australia's emerging spirits industry supports exports, tourism, regional communities and jobs
- 2 The Australian spirits industry has the potential to be a \$1 billion export industry by 2035
- 3 Policy and regulatory barriers such as high excise tax are preventing the industry from reaching its \$1 billion potential
- 4 The Government can help unlock the potential of the spirits industry to capture this \$1 billion export opportunity

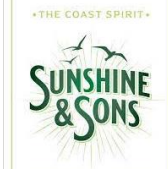


Key takeaways from industry consultation

INDUSTRY CONSULTATION



STARWARD



Enablers

- **Growing local interest in spirits**, particularly for gin, spirits with Australian ingredients and Australian lifestyle brand, made locally and sustainably
- **Investment and mentorship from personal, private and public sources**, whether from family and friends, commercial investors in Australia or internationally, or government support through grants and marketing
- **Transferable knowledge and skills** from wine, F&B, distribution, PR backgrounds – having the right people to grow the business



Barriers

- **Continued increases to excise tax regime** creates rising costs that create challenges for local distillers to grow their business
- **Inconsistent tax across types of alcohol** mean that increases in taxation for spirits will make it less competitive relative to other alcohol types such as wine and beer
- **Lack of recognition for Australian spirits both from local and international customers** mean distillers require large upfront costs on marketing and outreach to educate consumers
- **Lack of investment both from local and international sources** due to the tax and regulatory environment
- **Developing knowledge and experience** of the industry including in distilling best practices and marketing and branding



Change needed

- **Changes to the excise tax** such as a freeze or reduction, that will enable the industry to remain cost competitive
- **Spirits Australia with a brand and export focus**, like Wine Australia, that can help build a category, educate new customers especially internationally
- **Other government support** such as mentorship to upskill distillers and staff including leadership and business acumen, assisting with building networks overseas such as supporting marketing events like bar takeovers
- **Role of global spirits companies** in investing in local distillers and providing knowledge and experience to grow

Spirits included in this study

IN SCOPE

OUT OF SCOPE

PRODUCT CODE	DESCRIPTION
220810	Alcoholic preparations: compound, of a kind used for the manufacture of beverages
220820	Spirits obtained by distilling grape wine or grape marc
220830	Whiskies
220840	Rum and tafia
220850	Gin and geneva
220890	Spirits, liqueurs and other spirituous beverages: n.e.s. in heading no. 2208
220900	Vinegar and substitutes for vinegar: obtained from acetic acid
220430	Grape must: n.e.s. in heading no. 2009, n.e.s. in item no. 2204.
220510	Vermouth and other wine of fresh grapes, flavoured with plants or aromatic substances, in containers holding 2 litres or less
220590	Vermouth and other wine of fresh grapes, flavoured with plants or aromatic substances, in containers holding more than 2 litres
220600	Beverages, fermented: (eg cider, perry, mead)
220710	Undenatured ethyl alcohol: of an alcoholic strength by volume of 80% vol. or higher
220720	Ethyl alcohol and other spirits: denatured, of any strength

This report estimates Australia's export potential using a stochastic frontier gravity model

Modelling in this report uses a stochastic frontier gravity model of trade, which enables the estimation of a country's optimal level of trade and measures its deviation from the optimal state. This furthermore enables benchmarking between countries; in our case between Australia and top spirits exporters.

The stochastic frontier gravity model has the following equation:

$$\ln X_{ij} = \beta_0 + \beta_1 \ln GDP_i + \beta_2 \ln GDP_j + \beta_3 \ln rDist_{ij} + \beta_4 Border_{ij} + v_{ij} - u_{ij}$$

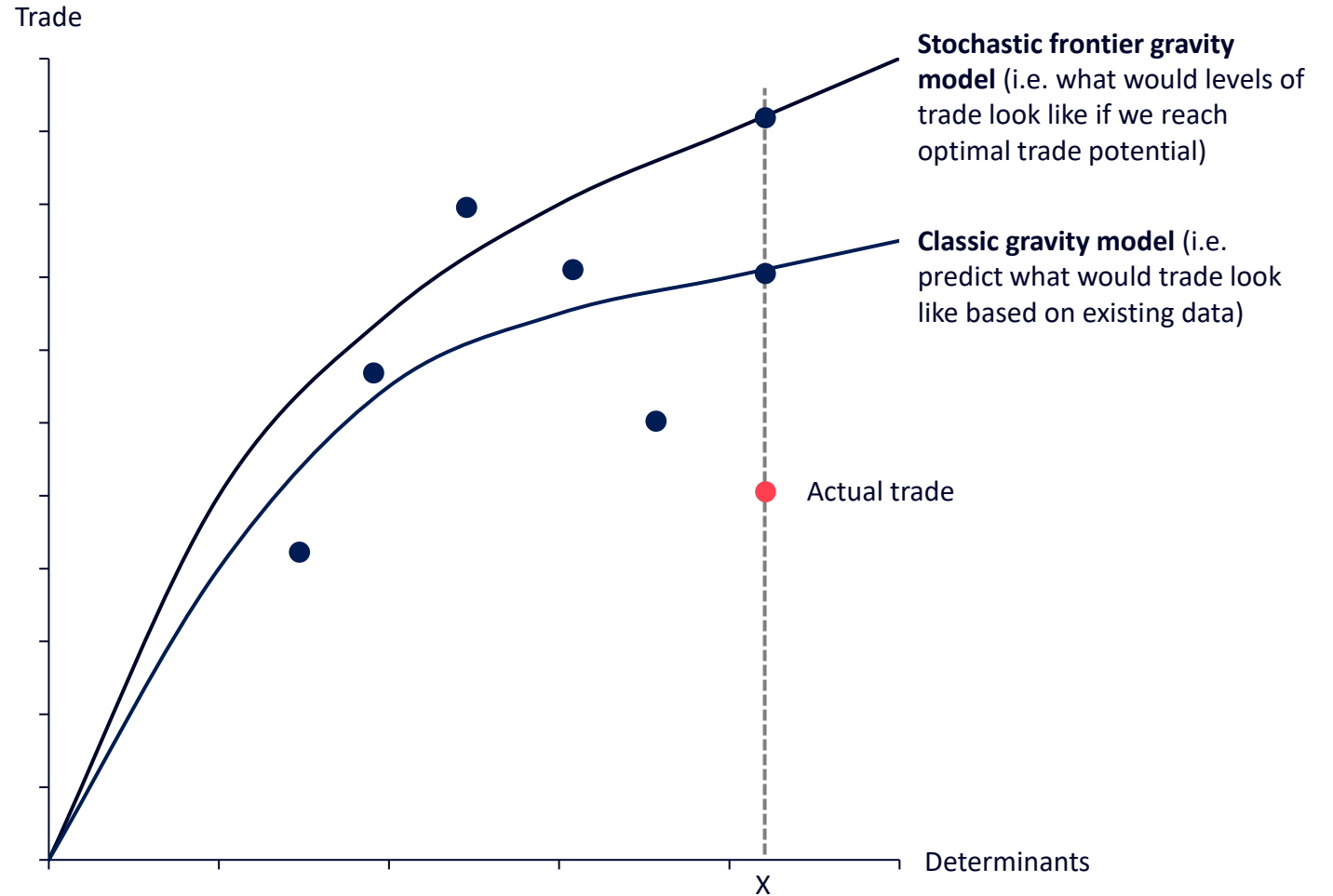
Key terms in the model include:

- Dependent variable – export value for spirits between country pairs;
- Independent variables – GDP of countries in country pairs, relative distance, levels of alcohol consumption, social connectedness, common language, shared colonial background; and,
- Inefficiency variable – key to this model is its ability to isolate an inefficiency term, which directly measures deviation from a country's optimal trade performance.

Several models were run using a range of variables and tests were conducted to ensure results were robust and suitable. The variables that were chosen were informed by theory and the model specifications tested for best fit.

Modelling potential spirits exports

Example stochastic frontier gravity model of trade



The status quo rate used to measure 2035 exports takes a middle-of-the path option

To estimate the growth of exports to 2035, we have used the compound annual growth rate of the last five years of Australian spirits exports by trade value as the status-quo rate.

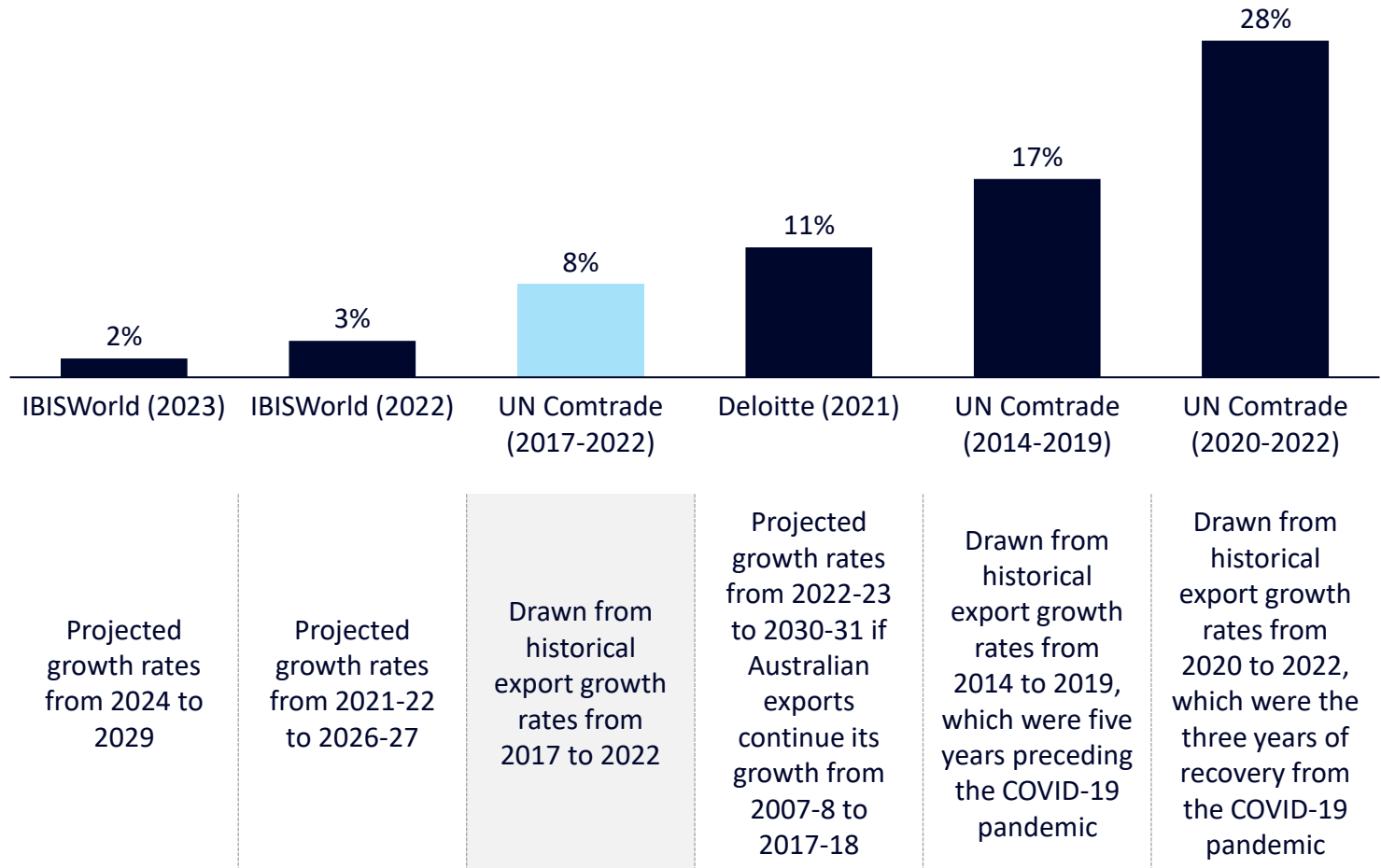
This estimate is conservative when compared to growth rates in the five years preceding the COVID-19 pandemic (2014-2019) at 17%, and the years following the COVID-19 pandemic (2020-22) at 28% annual growth.

Other sources projected growth rates for Australian spirits exports include IBISWorld, which projects a 2% growth rate for 2024 to 2029 and 3% from 2021-22 to 2026-27. Deloitte also provides a 11% growth rate which is based on historical growth rates between 2007-8 to 2017-18.

Changes in market, macroeconomic and geopolitical factors may affect these estimates.

Existing and potential export uplift using growth assumptions from historical UN Comtrade data, IBISWorld and Deloitte projections

% CAGR



We used a three-step approach to estimate the direct economic contribution and jobs of achieving our export potential by 2035

ECONOMIC CONTRIBUTION OF OPTIMISING SPIRITS EXPORTS BY 2035

Attributing GVA and jobs to domestic consumption and exports

- Split out revenue from domestic consumption of domestically manufactured spirits, exports from domestically manufactured spirits and re-exports.
- Apply GVA to revenue ratios utilising estimates for the industry from Deloitte for manufacturing and wholesale. Domestically manufactured spirits that are exported would contribute to GVA in manufacturing and wholesale, while re-exports would only contribute to GVA in wholesale.
- A similar approach is used to calculate jobs supported by domestically manufactured spirits for exports and re-exports using a jobs to GVA ratio.

Adjusting for time periods to 2035

- Quantify estimated uplift under status-quo and uplift scenario between 2022 and 2035.
- Apply relevant GVA to revenue ratios for domestically manufactured spirits for exports and re-exports.
- A similar approach is used to calculate jobs supported by domestically manufactured spirits for exports and re-exports using a jobs to GVA ratio.

Data:

- **Comtrade** – Export levels, growth in export levels
- **Deloitte** – 2024 Report on contribution of spirits to Australia’s economy
- **IBISWorld** – Spirit manufacturing in Australia

Assumptions:

- Modelling assumes that growth rates will remain consistent to historical 5-year growth rates in exports as well as consistent split of domestically produced spirits for export and re-exports
- Modelling also assumes consistent ratios in economic contributions and jobs between manufacturing, wholesale from the Deloitte report.

This report estimates which factors are key to achieving Australia's spirits export potential

To understand the policy barriers that would be influential in improving Australia's spirits exports, we use an Ordinary Least Squared regression model. This modelling shows the impact of each barrier, through the coefficients of the independent variables considered.

This regression has the following equation:

$$U_{ij} = \beta_0 + \beta_1 \text{ Cost of alcohol} + \beta_2 \text{ Branding} + \beta_3 \text{ Ease of doing business} + \beta_{ij} + \epsilon$$

Key terms in this model include:

- Dependent variable – the efficiency variable between two country pairs (taken from the gravity model outputs in the first phase of modelling); and
- Independent variables – cost of alcohol (including excise tax), branding, trade support such as FTAs signed and efficient trade systems, and ease of doing business scores as examples of the independent variables used.

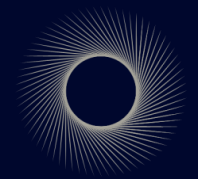
Several models were run using a range of variables and tests were conducted to ensure results were robust and suitable.

Modelling potential spirits exports through the gravity model of trade

Equation and diagram of stochastic frontier gravity model of trade

Independent variable	Description	Source
Relative cost of alcohol	<ul style="list-style-type: none"> ▪ The relative cost of alcohol per country compared to world average – matched to the exporting and importing country in a country pair. 	Quartz, from World Bank
Brand	<ul style="list-style-type: none"> ▪ A score measure for branding, from IPSOS' Nation Brand Index. This provides a score based on perceptions of countries around the world based on a survey of 60,000 people. 	IPSOS
Free trade agreement	<ul style="list-style-type: none"> ▪ Measure for whether the country pair is currently engaged in a regional trade agreement. 	CEPII, from WTO
Ease of doing business	<ul style="list-style-type: none"> ▪ A composite measure by country to compare the supportiveness of regulatory environment to doing business. Key components from this include enforcement of contracts, ease of obtaining credit, and paying taxes. 	World Bank
Trading across borders	<ul style="list-style-type: none"> ▪ A composite measure by country to compare the conduciveness of regulations for trade, cost to export and import. 	World Bank
Starting a business	<ul style="list-style-type: none"> ▪ A composite measure by country to compare the ease of starting a business, which includes measures such as time taken, and the number of procedures required to start a company. 	World Bank
EU membership	<ul style="list-style-type: none"> ▪ A measure for whether the exporting or importing country is a member of the EU 	CEPII, from WTO
WTO membership	<ul style="list-style-type: none"> ▪ A measure for whether the exporting or importing country is a member of the EU 	CEPII, from WTO

Sources: Mandala analysis.



MANDALA