Independent beer producers more than doubled in number between 2004 and 2009.www.shutterstock.com

Australia is awash with new independent breweries. Craft beer producers have grown from less than 100 in 2005 to upwards of 400 today. On average, a new physical brewery opens almost weekly. This is surprising given the significant tax disadvantages these small players face due to unfair excises and rebates.

Craft brewers in Australia can be traced back to the 1980s. While the Australian beer market consolidated to leave two giants – CUB and Lion Nathan - entrepreneurs emerged at the industry's fringe. These craft producers started to reintroduce and re-imagine beer styles that were no longer on the giants' radars.

There was a brief surge of independent entrants from the mid-1980s, but that crashed in the face of the early 1990s recession. The craft beer industry then bubbled along quietly for the next decade or so until the real surge came in around 2004.

Independent producers more than doubled in number between 2004 (73) and 2009 (158), and then again by 2015 (358). Product diversity also exploded.

Various factors fuelled this growth: dissatisfaction with the blandness of industrial beer, declining loyalty to major brands (by now foreign-owned giants), and increasingly adventurous palates. Other drivers include the increased availability of small-scale equipment, the emergent community of trained and passionate brewers, and some shift in retail outlets' willingness to stock the products these brewers created.

However, one hurdle has remained for smaller brewers - the Australian excise system.

How the beer excise works

Australia’s beer excise is the artefact of various changes over the past three decades. The rates are calculated as follows:

Packaging size	Alcohol ≤3%	Alcohol >3% but ≤3.5%	Alcohol >3.5%
≤48 litres	A$41.70 per litre of alcohol	A$48.57 per litre of alcohol	A$48.57 per litre of alcohol
>48 litres	A$8.34 per litre of alcohol	A$26.12 per litre of alcohol	A$34.21 per litre of alcohol

Excise table. Source data from Australian Tax Office.

Australia’s excise structure has some unusual features. Firstly, we tax beer at a higher rate than most countries (it can represent as much as half of the retail price), especially higher alcohol beers - i.e. those more likely to be brewed by craft producers.

Excise rates are also delineated by packaging size. The standard Australian beer keg is 50 litres. Lower excise is thus charged on draught beer from kegs (i.e. >48l) versus packaged product.

The back-story to why it works this way is that the hotel industry lobbied extremely effectively for this price advantage, on the basis of their greater societal and employment benefits relative to off-license retailers. The much lower rate for low-alcohol draught beer also reflects a “responsible serving of alcohol” concession.

Excise is payable at time of production, rather than sale. Bigger brewers pay weekly and smaller brewers (with annual revenue less than A$10 million) pay monthly.

Brewers are eligible for a rebate of A$30,000 annually on the first A$50,000 of excise they incur. This rebate would typically be exhausted once sales hit around A$120,000.

This means beer startups still building their business have to astutely manage cash flow, accounts receivable and inventory management. These businesses have to set aside substantial funds because of this excise that could otherwise be spent on crucial equipment, perhaps at a more efficient scale.

However, the packaging size distinction is the major sticking point. This renders bottled and canned products, as well as anything repackaged from a keg (such as into a growler - a 1 or 2 litre bottle) much more costly.

Yet craft producers need these formats to reach a diverse range of retailers and customers, especially when offering more unusual styles. More significantly, the assumption by the Australian Tax Office (who administer excise) that draught beer only comes in 48+ litre kegs is increasingly anachronistic.

Most craft brewers in other countries package draught beer in smaller kegs, anywhere from 30 down to 10 litres. These appeal to smaller venues (cafés and restaurants) that turn product over much slower, and to bars seeking to offer a larger range of products.

The beer stays fresher in smaller kegs, and breweries can more economically provide a diverse range of products. Key innovations have been made in this size range, including single-use, non-returnable, lighter kegs.

Under the current excise scheme there is a disincentive for Australian craft brewers to embrace this technology. This also hampers considerably the scope for international success in an increasingly global niche.

Reform on the agenda

Labor MP Anthony Albanese tabled a private members bill in federal parliament calling for a review of excise, as it affects small brewers. Alongside the packaging discrepancy, he called for an increase in the rebate (the wine industry equivalent is currently A$500,000). This bill looks to have considerable cross floor support.

With 400+ craft producers across the country, of which 54% are outside the capital cities, more and more electorates are home to at least one brewery. This increases the awareness of their plight among politicians.

Many of these firms represent an unusual source of local jobs, attract new tourists, and offer spillovers to a variety of local businesses including hospitality, agriculture, graphic design, distribution and engineering.

Canberra may, finally, be reducing some of the hurdles for small brewers with moves for excise reform .

The excise relief proposed would be a promising first step in levelling the playing field for craft producers versus the multinationals who now own Australia's giants (ABInBev and Kirin), and the emergent rivals trying to make "crafty" brands like Coca Cola Amatil (joint venture partners with Cassella Wines in the Yenda brand).

Andre Sammartino does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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