



## Distilled Spirits Aotearoa (NZ) Incorporated

New Zealand Business Number (NZBN): 9429047031708

Certificate of Incorporation: 2716891

Registered office 14 - 16 Harbour Street, Oamaru 9400, New Zealand

Telephone: +64(0)21 222 9881 email: DistilledSpiritsAotearoa@gmail.com

DistilledSpiritsAotearoa.org.nz

1 May 2020

Hon Jenny Salesa  
Minister of Customs  
Private Bag 18041  
Parliament House  
Wellington 6160  
Via email – [j.salesa@ministers.govt.nz](mailto:j.salesa@ministers.govt.nz)

Dear Minister

### Excise Relief for New Zealand's small Distillers

Thank you for the email received on 17 April 2020 (Avan Ross, Chief Customs Officer) seeking further information on the impact of COVID-19 on the distilled spirits industry and specifically as to where the payment of excise duty is causing financial difficulty. We appreciate the proactiveness of your request in this time of unprecedented financial disruption.

Distilled Spirits Aotearoa (DSA) was established in 2018 as an industry body to promote a strong, sustainable distilling business in New Zealand. DSA represents 73% of the approximately 75 small distilleries currently operating in New Zealand. New Zealand's spirits sector is in the early phase of its growth cycle and has been identified by the Government as a key sector that could drive the country's future exports ([Coriolis Report](#)). More than 50% of New Zealand's small distilleries are less than 4 years old, with one third opening within the last 3 years.

Distilled spirits manufacturing is capital intensive (ranging from \$300,000-\$3.5m for distillery set-up) and initially intensely cashflow negative for 2-3 years (even up to 4-10 years for e.g. whisky or brandy manufacturers, due to maturation times). Investment is usually based on keeping economies of scale as small and as controlled as possible to avoid too early over-investment or early selling out of shares (if any) merely to provide for cashflow. Funding is most commonly via bank loans, overdraft, mortgage of family home, loans from family and part/full time work. Almost all DSA members have commented that in their first 3-4 years of operation they do not draw a direct salary or pay dividends, with all profits going back into the business. Over 80% of New Zealand distillers will need to hold a part-time/full-time job to ensure cashflow in the early years of start-up. The speed of growth of a distillery can be shown to be directly related to free cash-flow and the time the distiller can give to the business.

### Impact of COVID-19

#### **Route to market:**

- Most small distillers with websites and a remote licence have continued to have on-line sales during lockdown, however the margins on these sales are very small. The restriction of sales volumes to Duty Free limits (no more than 3 bottles per sale irrespective of volume) has



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meant that the cost of courier delivery often results in no profit or even a loss (especially for rural delivery).

- Markets and food shows are significant sources of cashflow, with direct sales to customers. These of course were cancelled as we entered Level 2 and are likely to be cancelled for the next 4-8 months depending on the size of gathering.
- The key route for sales for more established distilleries has been hospitality, bottle stores and Duty Free. The sudden and devastating impact on these industries may never be recovered, and this immediately flows on to impact on the demand for New Zealand products.

### Cashflow:

Distillers continue to incur all the costs of creating their products (labour, raw ingredients, packaging, overhead/manufacturing costs, rent, distribution etc). Our members have reported that up to 50% of their debtors have informed them/ or are expected to be unable to pay their bills this month. This delay in bill payment is expected to continue as cashflow issues cascade through the supply chain.

### Competition against Exports:

New Zealand distilled spirits face strong price competition from well-established imported spirits. New Zealand spirits are usually priced in the premium category, due to high tax, production, retail and distribution costs.

The provision of rebates or relief on excise tax paid by smaller distilleries is a globally proven way to stimulate an emerging distilled spirits industry and has been adopted permanently by peer countries including USA, EU and Australia. As an example, a small distiller would pay NZ\$15.31 excise tax when producing a 700ml bottle of 40% spirits in New Zealand, whereas their counterpart in USA would pay only US\$0.43 (NZ\$0.67) tax. Australia provides significant excise relief to its distilled spirits industry and Australian industry bodies are currently lobbying their government for even further relief. Their requests are:

- Increase the small brewers and distillers excise rebate from the current \$100,000 to \$350,000 on a two-year trial basis;
- Have the new rebate apply to the current 2019-20 financial year as well as the 2020-21 financial year;
- Increase the rate from the current level of 60% of excise payable, to 100%, up to the new \$350,000 cap; and
- Allow brewers and distillers to pay their excise net of any rebate, rather than needing to pay excise and claim a refund.

It is particularly important, as New Zealand distillers struggle to survive, to be able to compete in domestic and export markets on a level playing field with international distillers.



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### Relief requested

The smallest, newest distillers in New Zealand are currently financially stressed. Those distillers relying on their other full- or part-time jobs as a cashflow generator for their distillery start-ups can be facing a double blow due to job insecurity. We estimate that over 25 distillers may walk away from their investments. The financial difficulties resulting from COVID-19 is likely to wipe out an entire “generation” of our struggling industry.

We request assistance from the New Zealand Government by:

- Providing Excise Relief – introduce a freeze on New Zealand’s July 2020 excise increase.
- Delaying or deferring excise payments with no interest or late penalties - for manufacturers struggling with cashflow.
- Introducing an Excise Rebate - match the rebate that is currently applied to Australian distillers, and any new excise relief conditions that may be granted.

On behalf of our members I ask for your urgent attention on this. I am happy to discuss any matter raised in this letter in more detail.

Yours sincerely

Dr Sue James

Chair, Distilled Spirits Aotearoa (NZ) Inc

cc. Avan Ross, Chief Customs Officer (Avan.Ross@customs.govt.nz)