20 October 2023

Standing Committee on Economics
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

Please find to follow my responses to the questions on notice arising from the Public Hearing held on 25 July 2023.

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**
**INQUIRY INTO PROMOTING ECONOMIC DYNAMISM, COMPETITION AND BUSINESS FORMATION**

**QUESTION CB01QON:**

**CHAIR:** Thanks very much for your opening statement. You talk about the high market concentration of Lion and CUB in particular at 33 per cent and 50 per cent, respectively. What's your understanding of how that has tracked over the last, say, five, 10 or 20 years; how has the shape of the industry evolved?

**ANSWER:**

**Dr COOPER:**

The market has essentially been a duopoly beer market since the 1990s.

As stated by Coopers at the Committee hearing on 25 July 2023, we estimate that CUB holds a 50% share, Lion holds a 33% share and Coopers holds a 5% share of the total Australian beer market. This information is a best estimate of the whole market, including private label and smaller craft breweries, determined with reference to a number of data sets.

Unfortunately, it is difficult for us to estimate historical market shares on this same basis due to lack of data. We only have historical information on the relative share of the three major breweries. We acknowledge this is less helpful for your purposes. However, we have set out the movements below to show that CUB has increased its share and Lion has decreased its share, while Coopers has remained consistent:

- Moving annual total to June 2023 CUB 58%, Lion 36% and Coopers 5%
- Moving annual total to June 2018: CUB 53%, Lion 42% and Coopers 5%
- Moving annual total to June 2013: CUB 46%, Lion 50% and Coopers 4%
- Moving annual total to June 2011: CUB 51%, Lion 45% and Coopers 4%

By way of explanation for this shift above, SABMiller purchased CUB in late 2011. As a result of that purchase, Modelo of Mexico transferred the distribution rights of Corona to Lion in 2012. The distribution rights were then transferred back again to CUB in 2016 when ABI, who had acquired Modelo, bought SABMiller (including CUB). At this time, the market share of Corona was estimated to be 5.9%.

The Australian beer market began consolidating in the early 20th century, following the recession of the 1890s and the passing of the *Beer and Excise Act*. CUB was formed following the merger of five breweries in 1907, and became significantly larger with the acquisition of Tooths in the 1980s. Lion arose from the New Zealand beer market and purchased the former assets of Alan Bond. He had acquired two large brewing companies in the 1980s.

The market became a duopoly in the 1990s when there were several mergers and acquisitions involving Lion and CUB:

- In 1992, Power Brewing Co entered a JV arrangement with CUB.
- In 1993, Cascade was taken over by CUB in 1993.
- In 1993, Lion took over South Australian Brewing Co (SABCo).
- In 1994, CUB claimed that it traded at close to 55% of the national beer market ('Lion finds CUB's cold war 'victory' hard to swallow' AFR Jan 6, 1994).

In 1995, an AFR article of May 15, 'bring beer war to a head' stated that CUB's market share had grown from 48% in 1993 to 55% while Lion's share had fallen from 46% in August 1993 to 43.4%. At that time Coopers' market share was less than 1%, somewhat smaller than Boag's Brewery in Tasmania.

With the purchase of SABCo by Lion, the Australian brewing industry was left with the four principal participants of CUB, Lion, Boag's and Coopers. Boags was taken over by Lion in November 2007.

**QUESTION CB02QON:**

**Ms LAWRENCE:** ……. What will it take for Australia to shift gears to improve productivity and get the scale to be in the top 10 beer exporters, compared to being the fiftieth?.....

**Dr COOPER:**

Unfortunately, due to high labour costs, Australia is not a low-cost manufacturer of packaged beer. While there are quality Australian brewers, with access to some of the best inputs in terms of ingredients, beer is effectively a commodity in most markets and is hard to significantly differentiate without marketing effort. Freight costs are high ex Australia and for many destinations refrigeration is desirable. Due to the high cost of achieving differentiation through marketing in export markets, it is difficult to obtain the price premium required to make it profitable to export to those markets. Further, even if a brand does become popular in international markets, improvements in manufacturing allow beer to be effectively and efficiently brewed under licence in those countries.

New Zealand is an exception to these rules, in that the beer does not need to cross the Equator and New Zealand is a high-cost labour market like Australia.

With the advent of craft beer internationally, the novelty and perceived value of imported beers have diminished in most advanced economies. With respect to successful imported beers in Australia, particularly Corona, there is a history of multi-million-dollar marketing investment over long periods to establish and maintain a presence. Corona is also made in a low-cost labour market so the price in Australia, after freight, remains competitive. Nonetheless, research suggests that Corona is now in decline.

Fosters was our most successful export beer when it had achieved a share of Australian production exported of 4% in 1991. Despite remaining the largest-selling Australian beer brand in the world, it is now made under licence in those countries where it remains popular.

Yours faithfully

**Dr Timothy J Cooper AM MSc MD MBA**
Managing Director