January 13, 2016

The Honourable Bill Morneau, P.C., M.P.
Minister of Finance
90 Elgin St., 17th Floor
Ottawa, Ontario K1A 0G5

via email & mail

Dear Minister,

In the absence of a formal House of Commons Standing Committee on Finance consultation process for the 2016 federal budget, I am writing to provide you with the top budget priority of the Canadian wine industry. In this recommendation, it is our objective to provide wine businesses of all sizes and in all regions the means they need to compete and excel in the global economy.

The Canadian Vintners Association (CVA) is the national association of the Canadian wine industry representing wineries across Canada responsible for more than 90% of annual wine production. CVA members are engaged in the entire wine value chain from grape growing, farm management, grape harvesting, wine production, bottling, retail sales, research and tourism.

The CVA recommendation detailed below reflects the federal government's priorities to strengthen Canadian businesses, as it will create a better environment for private sector investment in the wine industry, stimulate job creation and boost competitiveness. As a result, our recommendation will allow wineries to compete and win at home and around the world, resulting in significant value to the overall Canadian economy.

CANADIAN WINE INDUSTRY

The Canadian wine industry produces 100% Canadian (VQA and other Product of Canada) wines, as well as International Canadian Blended (ICB) wines. Both are significant economic drivers. A recent (2013) national economic impact study concluded that the Canadian wine industry contributes $6.8 billion to the Canadian economy – 100% Canadian wines contribute $3.7 billion (including tourism) and wines blended in Canada from imported and domestic content contribute an additional $3.1 billion. This study concluded that each bottle of Canadian produced wine generates an average of $31 in economic impact. The economic impact also includes more than $1.2 billion in contributions to government revenue through tax and liquor board mark-ups.

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Canadian wineries capture greater revenue than most agri-food products, by not only crushing grapes and producing wine, but also by packaging, marketing and sales. From vineyard development and grape cultivation to the final sale, wine is a highly complex process that involves numerous suppliers, distributors and service providers throughout the value chain, compounding the economic benefits.

Our domestic industry is reliant upon Canadian soil and is firmly rooted in rural economies across Canada; however, its impact extends well beyond direct sales and employment of Canada's 685 grape wineries and 1,600 independent grape growers, as strong linkages to tourism, retail sales, bars and restaurants support more than 31,000 jobs. The Canadian wine industry infrastructure is also motivation for more than 3 million tourists visiting Canadian wineries each year, which is four times the number of visitors to the Vancouver Olympics.

THE CHALLENGE

Over the past decade, Canadians have been increasingly making wine their beverage alcohol of choice, with wine consumption increasing by 26%, compared to 0% growth for spirits and an 8.8% decline for beer. Wine sales now account for 32% of the beverage alcohol market (up from 25% in 2004-2005); yet 75% of total wine sales growth in Canada over the past decade has been claimed by wine imports, and in 2014, Canada became the world's sixth largest wine importer in the world.

Canadian efforts to capture increasing consumer demand have been impressive, with investment in 400 new grape wineries focused on premium wines since 2006. Still, Canadian wines do not represent a fair share of domestic market sales, as Canadian wine industry sales account for only 32% of total wine sales, while foreign competition commands 68% of our market. This makes Canada the reverse of most wine producing countries, which appreciate strong domestic sales, such as 65% market share in the United States, 74% in Australia and 99% in South Africa, Argentina and Chile. Even China enjoys 78% of its domestic wine sales.

THE OPPORTUNITY

In 2015, global wine expert Rabobank identified Canada as the second most attractive market in the world for wine sales, while Vinexpo concluded that growth in Canadian wine consumption is twice that of the rest of the world. The Canadian wine industry recognizes that it is imperative to take advantage of these market conditions and our primary objective is to grow domestic wine sales in all available sales channels from coast to coast.

With proper support, the Canadian wine industry will build its market share beyond 32% towards a target of 50%. This is good for the Canadian wine industry and good for Canada. Based on our economic study, we know that every $1 million increase in Canadian wine sales will lead to a further $3.1 million increase in gross output – revenues, taxes, jobs and wages across the wine industry value chain – an excellent and savvy investment in our economy. In building greater market share and domestic consumer support, export sales will also grow as a result of increased global awareness of Canada's thriving wine industry.

To achieve this ambitious, yet attainable goal, our 2016 pre-budget submission is based on one recommendation to improve Canada's taxation regime, business competitiveness and maximize the number and types of jobs for Canadians.

Vintners Investment Tax Credit

Investment tax credits were introduced under Section 127 of the *Income Tax Act* (ITA) in 1975, as a measure to reduce the amount of tax payable by a taxpayer for a particular taxation year. Federal and provincial governments regularly provide sector or regional specific investment tax credits in support of economic growth, job creation and investment (e.g. Mineral Exploration Investment Tax Credit, SR&ED Investment Tax Credit and the Apprenticeship Job Creation Tax Credit).

The introduction of a specific and directed Vintners Investment Tax Credit (VITC) would be available to any eligible winery owner engaged in the business of producing grape wine who has a permit to produce wine. The tax credit would be used for improved operational and infrastructure investments, thereby improving environmental sustainability, productivity and competitiveness. Additional VITC program elements should include:

- Implementation for a period of 10-years (2016-2026), with an extension based upon an economic review
- Restricted to grape-based wine
- Based on a rate of 30% of eligible expenses
- Implemented on a per winery basis, with no corporate ownership restrictions
- Maximum $5 million annual investment per qualified grape winery

The VITC would apply to qualified investments made in the vintners wine business. The credits would be applied against federal income tax otherwise payable for eligible winery investment expenses related to winery infrastructure and capital assets (buildings, roads, retail and tourism, production equipment, environmental improvements, water treatment, vineyards, etc.).

The VITC would result in increased investment, transfers of expertise and technology through the registration of intellectual property, higher levels of employment, a more highly skilled workforce, improved economic conditions in less-developed regions, more economic activity and greater future tax revenue.

VITC Model

Three types of investment tax credits currently exist – refundable, non-refundable or partially refundable. CVA believes that either a non-refundable or partially refundable model would be best suited for both the Canadian wine industry and the federal government:

i) Non-Refundable

Introduce a non-refundable VITC, whereby 30% of a maximum $5 million in annual eligible expenses could be applied against a taxpayer's federal income tax otherwise payable for the taxation year during which the investment is made. Unused investment credits can be carried forward up to 7 years, or carried back to any of the 3 previous years, consistent with tax credits applicable to other sectors.

ii) Partially Refundable

Introduce a partially refundable 30% investment tax credit for eligible annual expenses up to $5 million, of which two-thirds (66%) is reported as a non-refundable and the remaining one-third (33%) is reported as refundable. The taxpayer first reduces the federal corporate tax payable by the non-refundable tax credits claimed. The remaining refundable portion of VITC would then be applied against federal corporate income tax payable, offering the potential for a tax refund for any excess. Any unused investment credits can be carried forward up to 7 years, or carried back to any of the 3 previous years, consistent with tax credits applicable to other sectors.

The VITC could be implemented by amending the definition of "qualified property" in subsection 127(9) of the ITA to include property used for wine production. Paragraph (a)(iii)(D) of the same subsection would require an amendment of the "specified percentage" rate to 30%. To create a new refundable or partially refundable Investment Tax Credit, Section 127.1 of the ITA would need to be amended or a new section would have to be added.

VITC Cost

The VITC would benefit every winery in Canada, regardless of size, with an estimated 80% of the benefits directed to small and medium sized wineries producing less than 50,000 cases of wine per year.

			$Million		
Annual Winery Production	**Number of Wineries**	**Average use of Maximum Annual Investment**	**Average Annual Industry Investment**	**Annual Federal Cost @ 30% VITC**	**10-Year Federal VITC Cost**
> 1 million litres	7	100%	$35.0	$10.5	$105
500,000 to 1 million litres	8	50%	$20.0	$6.0	$60
250,000 to 500,000 litres	16	25%	$20.0	$6.0	$60
< 250,000 litres	654	5%	$163.5	$49.1	$491
Total	**685**		**$238.5**	**$71.6**	**$716**

The Canadian wine industry is highly motivated to seize the current and growing market opportunities and through this supportive tax policy, the industry will grow substantially, benefitting rural economies, as well as the greater national economy. A 30% non-refundable

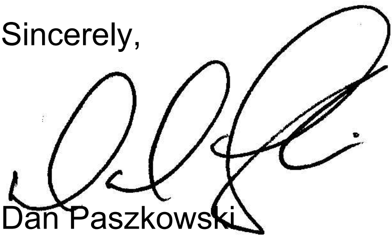
VITC would stimulate an estimated $239 million in annual winery investments with a cost to the federal government of $72 million per year.

Based on an average 11.2% annual revenue growth for 100% Canadian wines and 4% annual revenue growth for International Canadian Blended wines, the VITC would provide a 19 fold return on the federal government investment, more than double direct and indirect employment and grow the Canadian wine industry's national economic contribution from $6.8 billion to $20.3 billion over the period 2016-2026.

By their very nature, wine and grapes provide long-term employment and investments that are inherently tied to Canadian soil. Unlike manufacturing or service enterprises, vineyards cannot simply get up and move to another country, which ensures that federal investments in the industry are maximized to benefit the Canadian economy, communities and labour force.

Minister, we believe that the introduction of a 10-year Vintners Investment Tax Credit aligns with your government's priorities, especially those related to access to markets, creating good quality job opportunities for young Canadians, and public investment to create and support economic growth, job creation and economic prosperity.

Sincerely,



Dan Paszkowski
President and CEO

cc. Hon. Lawrence MacAulay, Minister of Agriculture & Agri-Food
Hon. Navdeep Bains, Minister of Innovation, Science and Economic Development
Hon. Bardish Chagger, Minister of Small Business and Tourism